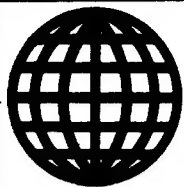


JPRS-EER-89-081  
21 JULY 1989



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# East Europe

JPRS-EER-89-081

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## CZECHOSLOVAKIA

**RUDE PRAVO Editor on Glasnost in CSSR**  
*24000150 Moscow IZVESTIYA in Russian*  
*9 Jul 89 First Edition p 5*

[Interview with Zdenek Horeni, editor in chief of the newspaper RUDE PRAVO, by IZVESTIYA special correspondents N. Yermolovich and L. Kornilov: "Altogether New Work"; date and place not given]

[Text] Our interlocutor was born in 1930 to a working-class family in the north of Bohemia. He is a member of the CPCZ [Czechoslovak Communist Party] Central Committee Secretariat, as well as the chairman of the Central Committee of the Czechoslovak-Soviet Friendship Union. In addition, he is a member of the Society of Friends of Hasek (in the Soviet Union his book "Hasek as a Journalist" has been published).

[IZVESTIYA] The level of glasnost at the first Congress of People's Deputies (and, in particular, its broadcasting on TV in full) prompt the mass media of our country to move up to this high level. Do you think that we should resolutely renounce stereotypes in covering the life of socialist countries, and show it as objectively and in as much breadth as possible?

[Horeni] This is a very important issue. It is legitimate and necessary to raise it. I will refer to my personal experience as a journalist who has worked at the RUDE PRAVO editorial office for 35 years. My first baptism as a foreign correspondent for our newspaper came in 1956 in Hungary. For 4 months I covered the events there. I remember how frequently the question was asked then by our readers: Why didn't you inform us sooner about what was going on there, about the situation emerging, about the condition of the party? Indeed, our information was lopsided; it proceeded only along the lines of narration about the successes of socialist construction, and did not touch on problems and sensitive issues. It could have been a factor that the Hungarians themselves did not write about it. However, this did not solve the problems, they were there indeed!

This is how I learned my first lesson: You must write truthfully about your friends, about socialist countries. However, in all honesty, the times did not always give us an opportunity to restructure our journalism.

[IZVESTIYA] Was this a factor during your work as the RUDE PRAVO correspondent in Moscow?

[Horeni] Of course. However, first I'll make a remark. We know each other well, all of us have long been addressing each other per second person singular. Why should we conceal this fact in the era of glasnost and truthfulness?

[IZVESTIYA] You have a point. In the pages of RUDE PRAVO it is altogether a custom to address people per second person singular, say, secretaries of party committees of all kinds of levels. In your recent interview with Comrade Jakes you asked your questions in this very manner, didn't you?

[Horeni] Yes, in the second person singular. This is a tradition of the Czechoslovak communists. However, let us go back to Moscow, a quarter of a century back. So, I worked in the Soviet Union for 6 years. When I sent my materials to Prague, I often had to transcend the confines of what the Soviet press reported, though I based it mostly on the press, and the latter helped me greatly.

I lived at Kutuzov Avenue, close to the "Borodino Panorama." I reported on it when it opened. Later, a fire broke out there. I found out about it only because it happened close to my house—not from the newspapers, which kept silent—and, naturally, informed our readers. I was criticized by comrades in Moscow for this small article. I remember that one of them put it this way: "Zdenek, if the Soviet press has not reported it, it has not happened."

Now it is different. Perestroika is an historic event not only for the Soviet Union. Narrating about it is altogether new work. It is based on a qualitatively new level of the Soviet press, the glasnost level. This is work with the most lucrative prospects, when life is in full swing and when you do not have to smooth the rough edges. At present, I personally see the role of a correspondent in a fraternal country as follows: Collect, write up, and file all information, but do it tactfully and with love for the country in which you work. The latter is particularly important.

[IZVESTIYA] Do you like everything in the pages of Soviet newspapers at present?

[Horeni] Virtually everything. However, there is a reservation: The meritorious worker, the positive role model has somehow disappeared. Are we not going overboard in this instance? Of course, there used to be the opposite, an overabundance of "positive characters." However, we cannot operate as a pendulum. Could it be that joy, inspiration, and, finally, scope are no longer a part of Soviet life?

[IZVESTIYA] This, however, depends on what is meant by the word "positive." After all, a person shows himself exactly in struggle, in criticizing the obsolete. In the absence of it, only angels are good in their own right. Certainly, the point is not to interfere in someone else's affairs or wash our common socialist dirty laundry in public. In this sense, we definitely subscribe to your concept of tactfulness and attention. However, the world is complex and contradictory, and bilateral relations of socialist countries do not at all always develop smoothly and serenely. Events of this kind cannot be passed over in silence either. RUDE PRAVO has reported on the

conflict which developed in conjunction with the construction of the joint Hungarian-Czechoslovak hydropower system at Gabčíkovo-Nagymaros on the Danube, on unresolved ecological issues at the Polish-Czechoslovak border. It would not be that bad if the contradictions were restricted to the sphere of national economy and environmental protection. However, contradictions exist in the sphere of ideology as well, as suggested by a statement made by CPCZ Secretary Jan Fojtik and the response to it by Deputy Minister of Foreign Affairs of the Hungarian People's Republic Istvan Oeszi. What is your position: Should there be complete openness in this sphere as well?

[Horeni] As I see it, we need to approach this from two points of view. First, relations between the parties are very important. You know, Lenin would not have written "The Childhood Disease of Leftism in Communism" had he not resolved to analyze the mistakes of his foreign friends (comrades). At present, individual parties, their central committees, explain to their members the attitude toward events in another party, another country. I believe that this is normal. This is by no means interference. This is one's own opinion.

Secondly, in RUDE PRAVO we proceed from the opinion that our main responsibility is to inform the reader. In the process, we subscribe to the principle that any form of interference is inadmissible in the work of a journalist. One should not carry on polemics proceeding from national or other motives. One should not use glasnost in a detrimental manner, thus worsening relations between the socialist countries.

In an interview given to MTI [Hungarian News Agency] on 21 June, Comrade M. Nemeth stated that the Hungarian People's Republic considers evaluating individual stages of its own history its internal affair. Hungary as well believes that it is a quite normal phenomenon that evaluations of the events of 1956 may be different in every country, and this is once again their internal affair.

The main point in this matter is to approach the work of a journalist in a highly responsible manner. As Fidel Castro once told me: "A journalist is as much a political worker as a politician, and his responsibility is no less than that of a politician."

[IZVESTIYA] Yes, but does this not mean that a journalist of a socialist country should definitely express the official point of view, and that political conclusions should be drawn from his articles?

[Horeni] Certainly, it does not. However, everything needs to be subject to political evaluation.

[IZVESTIYA] It is known that in the CSSR, incidentally, as well as in the Soviet Union, a good many people do not come out in favor of perestroika and glasnost. This is particularly the case with history, its "blank spots." Allegedly, the denunciation of many dark aspects which

occurred in our life would shake the belief of Czechs and Slovaks in socialism, in its foundations, and the image of the Land of Soviets. What do you think about this?

[Horeni] Perestroika is our common ship, though different discussions may erupt in different cabins on it. Czechoslovakia has its peculiarities. However, both in your country and ours people react to perestroika similarly: There are active fighters for it, there are those who wait, but there also are open panic-mongers. Incidentally, I judge so also on the basis of stenographic records published in IZVESTIYA during the Congress of People's Deputies, which have caused tremendous interest in our country. There also are bewildered communists who are turning in their party membership cards for one reason or another.

Thus, a group of our communists surrendered their party membership cards in conjunction with the publication of articles on Soviet history in the APN weekly TYDENIK AKTUALIT. This is how uneasy and angry they got. This is a fact.

However, there is tremendous interest in history. At present, RUDE PRAVO publishes more materials on the past of Czechoslovakia than ever—about Munich, Masaryk, Benes, the establishment of the first bourgeois republic, and so on. As far as I know, IZVESTIYA reported on some of them. We were guided by the historical truth and the interest of readers.

After the January 1968 plenum, much work has been done in our country on covering the "blank spots" in the most recent Czechoslovak history, on rehabilitating the prominent functionaries of the CPCZ and the state who have suffered through no fault of their own. At present, for example, the name of CPCZ General Secretary Rudolf Slansky is not at all passed over in silence as used to be the case; it appears in the press, in movies, and so on. Let me recall that Comrade Husak, who himself was subjected to unjustified repression, and subsequently became the head of the CPCZ and the state, guaranteed that not one of the active "rightists" who came out in 1968 will be arrested and thrown in jail, to say nothing of being shot. As one Hungarian comrade, who was recently shown the house in Bratislava where the former CPCZ Central Committee first secretary lives, observed: "After all, a live Dubcek is better than a dead Imre Nagy."

As far as discussions on Soviet history are concerned, we follow them with interest and say: "The Soviet people, the CPSU have every right, and even responsibility, to explain their history themselves, which is a part of universal history. In this respect, it is very important that, along with the polemics about the past, a reform of the political system is being carried out, and a mechanism of power is being constructed which will guarantee that what is being criticized now will not be repeated.

We have seen that the foundation for a new attractiveness for the world of socialism is being created at the Congress of People's Deputies.

[IZVESTIYA] The next question concerns the role of Stalin, his personification, and his identification with the mission of the Red Army—liberator of Czechoslovakia. Will he still remain a pure soul in the hearts of some Czechs and Slovaks rather than a bloody tyrant?

[Horeni] Let us say that you cannot leave a word out of a song. This phenomenon exists. However, it is characteristic precisely of the views of some individuals. The CPCZ announced long ago that it is solidary with the conclusions of the 20th CPSU Congress on the cult of personality and its consequences. At the same time, official Soviet documents and the wording they contain remain decisive for us. The latest are the words of Comrade M.S. Gorbachev in a report on the occasion of the 70th anniversary of Great October, which refer both to the contradictory personality of I.V. Stalin and to certain positive aspects of his activities.

[IZVESTIYA] Pardon us, but we hardly agree with you. However, the very fact of such a conversation is instructive. There was a time when it was believed that it is better not to start conversations like that with friends from socialist countries. It was much more appropriate to pat each other on the back, and raise toasts to tranquil friendship and peace. In turn, discord, arguments, or, God forbid, criticism should not by any means be present in either conversations or newspaper articles. Is this time gone?

[Horeni] It is going. The new society which we are creating is marked by openness, comradely relations between parties, countries, and governments, as well as people.

[IZVESTIYA] ...Perhaps, a new "image of the friend"—a partner with equal rights, an interlocutor who is capable of both defending the honor of his motherland and respecting the sovereign rights and interests of another fraternal country—should become the foundation for our joint work in the sphere of propaganda and ideology. In a word, the sacred cause of camaraderie should be rid of all traits of window-dressing and formalism. We believe that our mutual relations will only be reinforced and not at all weakened if we gradually get used to not taking offense at the truth, the arguments of reason, the desire to reveal common acute problems rather than sweep them under the rug.

[Horeni] I agree. Recently, we at the leadership of the Czechoslovak-Soviet Friendship Union discussed plans for conducting yet another Friendship Month of our countries for the first time after the publication in IZVESTIYA (No 366, 1988—N. Yermolovich, L. Kornilov) of the article "Gallop Through Europe." The article was correct in stressing window dressing, formalism, and excessive "concentration" of the programs of the month. All of this must be corrected. However, we should not give up the heights we have achieved.

Incidentally, at the recent traditional festival of music "The Prague Spring," many RUDE PRAVO readers asked why Soviet artists haven't come. If I am not

mistaken, they were not there, except for the V. Minin choir. I do not know why this happened. However, I am in favor of the following principle reigning in the environment of new thinking: When you acquire new friends, you do not abandon and lose old ones.

[IZVESTIYA] Now we have several questions entailed by this new image of the friend. Is public opinion in the CSSR studied in a sufficiently complete and systematic manner? How is it taken into account in ideological work?

[Horeni] In this sphere, indisputable changes for the better are apparent. Public opinion polls were conducted in the past as well, but they were not published. At present, this is different. Thus, recently the opinions of my fellow citizens on perestroika and some aspects of the political system were released to the public. A majority of them accept the fundamental principle of the National Front as a platform for developing the common political line of the parties, social organizations, and special-interest associations existing in the country, with the recognition of the leading role of the CPCZ. At the same time, the practical implementation of this principle in some cases is viewed as divorced from the needs and interests of people. Only one-third of the respondents believe that rank-and-file members of the National Front exert real influence on government or the selection of candidates to the supreme organs. As far as procedures for the election of deputies are concerned, 62 percent of citizens believe it is correct to elect from no fewer than two candidates, and only 5 percent are satisfied with the principle of voting for the only candidate. More than three-quarters of the citizens expect perestroika to solve considerable problems which have accumulated in our economy. Two-thirds believe that we should act faster, more radically, not through half-measures. To be sure, some are making statements to the effect that perestroika is a mere propaganda campaign.

[IZVESTIYA] Well, this is a familiar picture to some degree....

[Horeni] RUDE PRAVO also conducts its own sociological research. What do the readers rebuke us for? For publishing little criticism, for not always seeing things through to the end. For not paying enough attention to the problems of young people. For foreign coverage being better than domestic coverage.

Proceeding from this, we strive for the Czechoslovak citizen, our reader, to obtain information about events in the CSSR from our sources before foreign ones. After all, this is a political issue. We make the participation of readers in the newspaper more vigorous.

[IZVESTIYA] Does opposition to the authorities exist in Czechoslovak society? What does it represent?

[Horeni] Yes, various groups have appeared which call themselves the opposition. They are outside the National Front, they do not recognize it, and do not intend to become a part of it, despite the National Front being

open to those who want to cooperate within its framework. Recently, the Czech and Slovak ecological organizations, our "Greens," so to say, were admitted to the front. The admission of these organizations to the National Front is deserved and instructive. As far as the other groups of the opposition are concerned, of which "Charter-77" is the main and oldest one, perestroika is not their program; they hold bourgeois positions and dream of returning to the pre-Munich arrangements, to the political structures of 1938.

[IZVESTIYA] All of them?

[Horeni] Except for one. This is "Obroda," which means "renewal," "renaissance." It consists mainly of the former CPCZ members who left the ranks of the party after the events of 1968. Its political aspirations run counter to the course of the party, despite the fact that they are raising, in a sense, the same issues as the National Front: human rights, ecology, and so forth. On the whole, the present-day opposition exploits the difficulties of development of our society and the shortcomings. The number of such groups is growing; despite the fact that their core is not that numerous, the existence of opposition in the CSSR still should not be underestimated.

[IZVESTIYA] What are the reasons for changes in the CPCZ leadership (and subsequently in the government) carried out at the last plenum of its Central Committee?

[Horeni] The issue of renewal of leadership cadres was raised a year and a half ago at a CPCZ Central Committee plenum in a resolute and principled manner. In this respect, stagnation was registered in the past; there was no considerable rejuvenation or rotation. I believe that now there are considerable changes. Thus, in a year and a half 25 percent of the leading cadres of kraj and okres party committees changed. The principle declared by M. Jakes began to be implemented: not to leave a person at the same leading position for longer than two terms, that is, 10 years. We will comply with it.

[IZVESTIYA] At the same time, people who have retired appear to continue taking part in party and state activities....

[Horeni] Speeches by Vasil Bilak at a Central Committee plenum and by Lubomir Strougal at a session of the Federal Assembly are the most recent and graphic examples of this. As I see it, both comrades made very pointed, and very much their own, statements. We at RUDE PRAVO published their speeches, one in full and one with minor reductions made by the author himself. There should be culture in personnel policy as well, shouldn't there?

[IZVESTIYA] There should indeed. Thank you very much for this frank conversation.

## HUNGARY

### Role of Supreme State Auditor's Office Discussed 25000290 Budapest FIGYELO in Hungarian 25 May 89 p 10

[Interview with Laszlo Ballai, chairman of the Central People's Control Committee, by Emilia Sebok: "Controlled Spending"; date and place not given; first paragraph is FIGYELO introduction]

[Text] It is the constitutional responsibility of the National Assembly even today to determine and approve the national budget. But it lacks (as does the government) adequate means of control for this. The new Supreme State Auditor's Office [SSAO] is meant to fill this gap. However, the Ministry of Finance and the Central People's Control Commission [CPCC] represent fundamentally different concepts in connection with its establishment. We talked with CPCC Chairman Laszlo Ballai about the details of the CPCC's concepts and other issues connected with the auditor's office.

[FIGYELO] The principles of the new constitution, accepted by the National Assembly, include the reestablishment of the Supreme State Auditor's Office (SSAO)—after a 40-year interruption. What position would this office occupy in the system of state control?

[Ballai] The National Assembly's increased role and responsibility presumes its familiarity with the utilization of basic economic and social processes, and of public money in particular, and the supervision of the organization carrying this out. This is why the SSAO must be established; this, incidentally, may happen even before the acceptance of the new constitution.

[FIGYELO] What would the main tasks of the auditor's office be and what main areas would be under its control?

[Ballai] The SSAO's main task would be to take part in overseeing budget implementation and use of state assets, and in the National Assembly's supervision of the government's economic policy activity. For this purpose, the SSAO would examine and analyze specified areas of finance and business in terms of their usefulness, efficiency, and accountability.

In our opinion, the SSAO could, also at the government's request, examine various issues and objectives in addition to the above, if necessary. If, in addition to the tasks already mentioned, we briefly refer to yet an additional task of the auditor's office in the changing political institutional system, namely, the supervision of the state support of the various parties, and the legality of their business activities, then it becomes evident that our concept is of a parliamentary supervisory organization, presently widespread abroad, with extensive responsibilities that include the supervision of finances and the operation of the fiscal and monetary spheres.



The standpoint of the Ministry of Finance diverges from this completely and, in reality, aims at the installation of a parliamentary supervisory organization with limited authority, i.e., an auditor's office which in practice would do little, if any, auditing on location or at the chapter level; instead, it would depend on the work of a governmental supervisory body yet to be set up and also possessing a regional network, and basically its activity would be limited to the evaluation of the budget and the closing balance.

It is not accidental, therefore, that the Planning and Budget Committee disagreed with the Ministry of Finance because, if a governmental supervisory body would do the chapter-level auditing and would oversee the operation of the separate state monetary funds and state subsidies, then, in practice, it would not be the National Assembly but the government which would oversee its own implementation of the budget.

[FIGYELO] Would you please explain what "supervision at the chapter level" means exactly?

[Ballai] In the state budget, the ministries, the bodies with national authority, and other independent organizations (e.g., Hungarian Television, the Capital City Council, and the County Councils) constitute the so-called independent chapters. Chapter-level supervision means, then, the supervision of the finances, operation, maintenance, development planning and implementation, and the use of separate state funds in these organizations. But the supervisory control of budget organizations and institutions is the responsibility of the responsible branch ministry or county council, i.e., the budget chapter.

Chapter-level supervision would provide, although indirectly, a picture of the operation and activity of state institutions. It is not irrelevant, therefore, whether the supervision of the aforementioned chapters will be the responsibility of a parliamentary supervisory body. Because if not, then the National Assembly would have to continue to rely on experiences and conclusions based on studies by governmental supervisory bodies, transmitted by the SSAO—just another body with limited authority. We disagree with this solution. Nor are we unaware of any examples abroad of two central supervisory organizations with general authority (one under the National Assembly, the other under the government) operating side by side.

[FIGYELO] A statement, albeit in general terms, was made at the Planning and Budget Committee meeting, namely, that the National Assembly, even with its present authority, has been unable to adequately oversee the government. What does this mean and how will the SSAO's establishment be coupled with the reform of state finances and the budget?

[Ballai] In an exceptionally advantageous way, the reform of the budget and state finances coincide in Hungary today with the modernization of the system of supervision and the preparation of the SSAO's establishment.

The National Assembly has been unable to adequately oversee the budget so far because of some intentional cover-up by the government of its financial operations but, instead, because the budget law, or rather, the acceptance of the closing balance, was connected to the annual balance of the budget based on money circulation and not to state financing as a whole. And, in many respects, the flow of information takes into consideration the viewpoints of the government and not the National Assembly.

The imminent budget reform will include the entire scope of state finances, i.e., not only the central state budget but also council budgets, the separate state funds, social security, and other state obligations. By definition, the SSAO's authority would also be connected to the state budget in this broader sense. But this would, at the same time, also mean that in the case of council budgets the SSAO's authority would be limited to overseeing the use of central resources. The use of the monies coming in to the councils as local taxes or as revenues from their own enterprises would be overseen by autonomous local bodies.

[FIGYELO] Overseeing the use of state assets is planned to be one of the SSAO's main responsibilities. But how would this supervision take place?

[Ballai] This is one of the main tasks of every auditing office. But the ownership structure of any other country with a parliamentary supervisory body cannot be compared to ours, for nowhere else does such a predominance of state property exist. Thus, the experiences and methods of foreign countries cannot be adopted unchanged, just as pre-1949 Hungarian practice cannot be transplanted to the present.

It is still unclear how the system of ownership will change. It is certain, however, that following the development of ownership reform, one of the SSAO's main tasks will be overseeing the use of state assets. The SSAO will have indisputable authority over the supervision of the management and use of assets wherever state assets or a share of assets exist, or will exist, and wherever the state has the right to make decisions. The ways and methods of supervision must be developed by the SSAO during its operation.

However, the results of the audits will require more operative decisions from the most supreme body of people's representatives. For instance, let us just think of the cancellation of state credits or basic state apportionments in the economic rehabilitation of major state enterprises.

[FIGYELO] We have been talking mostly about the use of state monies. But these must be collected. Will the SSAO also have the authority to oversee collection? Or will it be allowed to control the government when trying to decrease budget deficits by levying "hearth taxes" without authorization by the National Assembly?

[Ballai] Of course, the SSAO will also oversee the levy side. For instance, it would be able to inspect the Tax and Finance Control Office for its appropriate collection of taxes and other debts to the state. But it is still too early to talk of concrete methods of supervision.

Applicable laws and statutes allow the government to levy the aforementioned obligations called "hearth taxes." At present, only slightly more than half of the budget receipts come from sources regulated by law. It is the National Assembly's responsibility to increase this ratio. Even the SSAO can only call attention to this problem without being able to solve it.

But it must also be recognized that neither side of the budget can be precisely calibrated. Some leeway must be reserved on both sides of the scale. However, this will allow the government much less freedom of operation.

[FIGYELO] The competence of some of the CPCC's investigations has been questioned recently. Even you stated in the presidential referendum recently discussed by the National Assembly's Planning and Budget Committee that the CPCC can only partially meet its obligations in making proposals and evaluations regarding the state budget. It is stated in the referendum, nonetheless, that the CPCC is suitable for being changed to an auditing office. What is the basis for this statement, which many considered a biased opinion that can be refuted, especially by experts, but serves the CPCC's survival?

[Ballai] At present—to quote from the text of the applicable law for the sake of exactness—"The CPCC prepares, for the bill that determines the budget and closing balance, a report for the Council of Ministers in important economic and sociopolitical issues." Thus, the tasks of the CPCC do not include chapter-level supervision although it is the basis of the information that is necessary for the evaluation of budget management, not only in terms of some of its important issues, but as a whole.

The directors and associates of the Auditor's Office are highly trained specialists with extensive professional expertise in administrative control, just as in foreign countries at present and in Hungary previously. Gone are the times when the staff of an auditing office was trained only in accounting and auditing. For example, auditing offices also evaluate individual state investment projects in terms of technological efficiency or possible violations of international agreements. Thus, there is a need for highly knowledgeable and experienced specialists of economy, law, technology, and other fields. In the CPCC, however, we hired only staff members with appropriate professional experience from the beginning. Therefore there are numerous experts in the present

apparatus of the CPCC, qualified to work in the auditing office. This is intellectual capital which must not be ignored in the SSAO's establishment.

[FIGYELO] With the establishment of the State Auditor's Office, a supervisory body of the legislative power, i.e., the National Assembly, would be created. But if the CPCC is changed to an auditing office, then the executive power, i.e., the government and the citizenry, will be left without a supervisory organization. For investigations are carried out by the CPCC not only by the authority of the Council of Ministers but also on the basis of reports from individual citizens. Who will then conduct these investigations?

[Ballai] As an auditing office with tasks we consider useful, equipped with a central office and regional organizations, will be created, then the executive power can also make use of the parliamentary supervisory organization's capacity. But the government, i.e., the individual ministries and national organizations, has an extensive supervisory network at its disposal even at present, most of which will be maintained even after the SSAO's establishment.

Dealing with individual and public information and complaints is a separate issue. In connection with this, the principles of constitutional reform include several procedures. The establishment of an institution of citizens' ombudsman, or a general legal inspector of the Prosecutor's Office could be mentioned. A court of public administration could be a new legal institution which could deal with citizens' complaints against state administrative processes, etc. And it is also conceivable that citizens could forward information directly to the SSAO regarding the use of public monies. But it also pertains to the fact that investigations of, and dealings with, citizens' complaints constitute less than 10 percent of the CPCC's work, which does not diminish their significance, of course. And it is also apparent that the legislators wish to continue dealing with information and complaints.

I emphasize that the point is not that the CPCC would be "transformed" into an auditing office but rather that the National Assembly's supervisory body can be established only from the staff of qualified experts working at the CPCC and its county organizations, the Ministry of Finance's main department dealing with chapter-level overseeing, the councils, and the national supreme authorities.

[FIGYELO] Overseeing the economical, efficient, and profitable use of budget money is specified as one of the SSAO's responsibilities by the principles of constitutional reform. However, these criteria are difficult to define under the present system of pricing, subsidies, and accounting. How will the SSAO deal with these tasks?



[Ballai] No auditing office can ignore these tasks, but I share your doubts. Nevertheless, I hope that the forthcoming changes in economic policy and economic management, the modifications in the competitive sphere's operating conditions and, not lastly, the reform of state finances and the planned changes in the monetary sphere sooner or later will allow the new SSAO to operate under a new price and subsidy system and a more up-to-date accounting system.

[FIGYELO] In the aforementioned referendum, you referred to the international practice according to which the directors and members of the parliament's supreme supervisory body are highly paid in every country. The reason for this being that with a secure livelihood they would do their work objectively and resist bribing. How much would we have to pay for the SSAO, and how large would its staff be?

[Ballai] It is quite true: our experiences abroad unequivocally indicate that associates of auditing offices are legally, professionally, and financially independent. High salaries and appropriate living conditions provide a guarantee for their being untouchable and consistent.

The size of the staff depends primarily on the kind and amount of work. The Ministry of Finance's idea of 50 or 100 people will be clearly insufficient if the auditing office would be responsible for doing what we recommended. But I never said anywhere that an apparatus of 1,000 people would be needed, for which I have been reproached. This is a misunderstanding. In my introduction at the Planning and Budget Committee meeting I stated that the entire national network of the auditor's office, including its regional city organizations, employed about 1,100 people in 1944. Depending on its responsibilities and regional stratification, the SSAO's staff may come to be between 100 to 1,000 people. Incidentally, a careful checking of the figures will reveal that, albeit at various institutions, the total number of people overseeing budget issues is presently about 1,000 also.

**Roundtable Discusses Politics, Morality, Ethics**  
*25000315a Budapest NEPSZABADSAG in Hungarian*  
*3 Jun 89 pp 13-14*

[Moderated by Laszlo Seregi; date and place not given]

[Text] Politics, power, morality. We are in the favorable, or if you wish, the sad situation in which we need not provide an explanation for the timeliness of the subject. Never before has the credibility value of politics and politicians registered at such low rates as now; never before have there been so many cases which may be legally acceptable, but which are unacceptable from an ethical standpoint and which create emotional upheavals. What took place in the Hungary of our days? How did it, how could it evolve like this? What explains the fact that, regardless of the explanation given for distorted phenomena, tendencies, and cases, their number is on the increase? This was the topic of our

roundtable discussion with Sandor Czoma, National Assembly representative, Andras Fabriczki, MSZMP [Hungarian Socialist Workers Party] 19th district committee first secretary, Tamas Foldesi, faculty dean of law and political sciences, Eotvos Lorand University of Sciences, Miklos Szabo, Alliance of Free Democrats managing director, and Ivan Timko, Hungarian Democratic Forum expert. Our editorial offices were represented by Laszlo Seregi.

[NEPSZABADSAG] In Hungary there is a political, economic, and moral crisis. Only a very few are arguing this so far. On the other hand, views are highly divided on the question of which of these factors came first, how did the not-too-constructive series of our crises begin? Is it at all important to establish a time sequence?

**Antecedents and Consequences**

[Czoma] I am convinced that the symptoms of a moral crisis appeared first. Society was forced to be brought up virtually without being able to do or say what it wanted to. They robbed from society and prohibited religion, but in the evening children did not fall into their beds like sacks of flour. Instead, before going to bed, they did indeed nicely murmur that ancient prayer, just the way they learned it from their parents and grandparents. On the other hand, these children were never able to talk about these prayers anywhere and to anyone, because if they did, their families would have experienced a grave existential threat. Accordingly—I dare state—the best core of today's society was raised in a sneaky way. Its members could shake hands only in secret, in back yards. The political crisis is the consequence of this moral discord, of the depressing decades in which thoughts were suppressed. This in turn has reached its peak in the present economic chaos.

[Fabriczki] Which came first, the political, the economic, or the moral crisis? Yes, the sequence is important, but in my view it is far more important to say that actually all of these are only consequences! These are the consequences of the crisis of a model, which thus far has fulfilled its historic mission but has now become old, and its renewal can no longer be delayed. And if we implement this radical intervention while considering what should be done, and are thereby delayed, our society may sink back into the condition of prolonged stagnation. Incidentally, all antiquated social models are laden with crises. Accordingly, what we are seeing in Hungary today cannot be regarded by any means as phenomena specific to the system.

[Szabo] The moral crisis, the reality of our days, is not new. Its roots reach back to the events of 1956, to the consolidation which followed the popular uprising. They reach back to the days when in the name of making peace, with the intent of making peace, tacit bargains were struck and separate peace agreements were declared one after another. But regardless of how we look at them, these agreements could come about only by surrendering principles.

[NEPSZABADSAG] Who are you referring to? To the people or to those in power?

[Szabo] Both. Seeking to acquiesce, they put up with the situation, while their views and value judgments did not change. They continued to regard 1956 as a revolution, and Western bourgeois democracy as an example to follow. In moralizing terms: They betrayed what they were before, they surrendered their principles. But I emphasize: They did so because they were forced. True, those in power did the same. Their exercise of power substantially differed from the earlier practice—from the practice designated prior to 1953 and officially in force since then, even though they never refuted that practice publicly, nor did they critically examine that practice.

[NEPSZABADSAG] If I understand you correctly: It was a mistake to make these separate peace agreements.

[Szabo] We had to pay too high a price for these. Yes, that's what I'm saying. With these ominous bargains we accepted the right to be silent and the right to forget. We accepted the idea that we will not disturb the past and that we will not seek out those responsible for the tragedy of our national fate. We agreed to act as if matters had come to rest. Thus they removed the antecedents and consequences of 1956 from public thought, and put an end to chances of holding persons responsible. It was precisely for this reason that an actual tragi-comic situation could evolve, in which people once turned against each other by history were seated next to each other in the same pews.

[Foldesi] Aristotle said that from a moral standpoint, all power is extremely dangerous. He was correct. Yet, the communist movement did not accept this thesis, believing that it applied only to societies stratified by social classes. Those in the communist movement felt that since their goals were different, they need not heed the admonition, moreover they need not even bother with it. We can state in general: In socialist countries the leadership actually did not assign much value to morality, and not even the conceptual trials and the consequences of personal cult opened its eyes. Morality did not play a significant role even in the selection of cadres. Political reliability ranked highest among value criteria. Any stronger invocation of morality was perceived as coming from the opposition. And further, moral viewpoints could not prevail because within the hierarchy the right to express opinions regarding fundamental political and moral issues was tied to functions. It has happened to me several times that I was upset by something and spoke out. In response they asked "How dare you get involved in this matter? This is the party's business, we will decide whatever has to be decided." Under such circumstances it would not have made sense to force the issue of holding persons responsible.

[Timko] I will also invoke Aristotle. He perceived ethics as part of the practical sciences, and as such perceived practical science as the tripartite unit of politics, ethics, and economics. Accordingly, in Aristotle's mind these

three branches represented unity, which we now want to separate and turn against each other. This endeavor is related to uninformed minds, because we no longer know the content of morality as a collective concept.

[NEPSZABADSAG] And what is that content?

[Timko] It represents a pasture. In other words, a place around a house where people can meet, and where as a result of such meetings there have evolved rules of conduct for personal contact, exchange, and establishing relationships. In a figurative sense it is an opportunity for me to harmonize myself with my conscience and to account for my deeds. Babits comes to mind: he complained that from his standpoint "words have become infidel." And Illyes went so far as to say that the words which could express what has happened to us have not yet been invented.

[NEPSZABADSAG] And what has happened to us?

#### There Always Were Problems, But...

[Timko] The worst has happened. Because although our vocabulary includes these words, they have lost their original meaning, or they have taken away from us their original meaning. The person behind the meaning of these words was removed. There is no harmony between human experience and the word. This phenomenon was recognized by two eminent philosophers of this century: Heidegger and Wittgenstein. They concluded that in addressing the same matters we articulate different concepts. Accordingly, we must return to the original meanings of these concepts, so that we may renew them. Otherwise we will lose ourselves.

[NEPSZABADSAG] Could you mention a concept which we are not dealing with in an appropriate manner?

[Timko] I can mention several. The state, the law, politics. And the crisis. I do not feel, I do not sense the negative value content in the word "crisis" for example. Crisis is a given part of human nature, we achieve our goals by resolving conflicting situations. They are using the word "crisis" instead of saying that there were faulty decisions and wrongdoing, so that they deflect responsibility.

[Czoma] In my mind "crisis" means that I find myself in a dead-end street, but I need not worry because I will find the path that leads out of that place.

[NEPSZABADSAG] Yes, but from this "path" we must first clear away our everyday lives, the debris that pollutes the atmosphere. Really: Why did the number of these pollutants increase so suddenly? Do we find the problem in the persons, or in the system whose products these persons are and which launched these persons into the sphere of power? In simple terms: Why did Hungarian public life become corrupt—with all due respect to the present exception, of course.

[Czoma] Never have there been so many problems? Of course there were, the problems always existed. Among those at the peak of power, and also among those who could share the cake of power, there evolved a sense of being outside or above the law. A feeling that they could do anything. "We make the laws, we may violate those laws at any time."

[NEPSZABADSAG] At most "We will create another law"!

[Czoma] That's about it. The problems have always existed, and the people recognized everything because they did not have their eyes shut. But they could not talk, and if they talked they could count on reprisals. The problems are now pouring out as a result of political renewal, thanks to a greater degree of openness in society. This is why it may seem that these problems are products of the crisis. But they are only consequences. The real reasons can be found in the realities of Hungary.

[Timko] There will be no solution until we shed light on the antecedents of those reasons. The solution may come only thereafter: cooperation instead of opposition. Otherwise the entire country will fall apart.

[Fabriczki] Politics and the morals of a politician are related to each other, but the two are not one and the same thing.

[NEPSZABADSAG] Are you trying to say that immoral policies may be supported by politicians with a high degree of morality and vice versa?

[Fabriczki] Yes, that's what I'm saying. And I could provide some names, but at this point let's stick to the main topic: the morality of politicians. Well, the basic formula is as follows: there is a vast difference between the responsibility of leaders and the life situation of these leaders, because they must be underpaid in the name of a pseudo-sacred ideology. For this reason, however, the existential interest of leaders has simply been missing. The ever larger gaping hole has been bridged by a tacit agreement.

[NEPSZABADSAG] "Let's help each other, comrades? I will throw in my influence and you give me what I need!" Is this the essence?

[Fabriczki] It is. It would have been more simple of course to have well paid leaders, but this was not in the interest of an overly centralized power which showed strongly feudalistic conditions of dependence. Because if this is the only way a leader can acquire appropriate existential circumstances, it becomes only a matter of determination when those in power establish and chastise him for his sins. Accordingly, the leaders are in a situation of dependence, which not only creates, but renders bribery and corruption natural.

[NEPSZABADSAG] Accordingly, anyone agreeing to play a role in public life necessarily became corrupt?

[Fabriczki] One does not have to accept favors. But one must give, there is no way out.

#### There Could Have Been 'Clean' Persons

[Szabo] Corruption exists everywhere in the world, because those in power always want to enforce their interests. In democracies, however, the struggle against corruption is also a part, virtually a supplementary part, of the political struggle. The opponents keenly watch each others' steps. On occasion this is overdone by losing the proper measure, but they will strike down if they become aware of a real case, because it is in their elementary interest to publicize such matters. This is so, because every discovery weakens the moral credibility of their competing opposition, thus improving their own chances and prospects. During all this time societal control becomes a reality, and a self-cleansing process begins. But as we know, everything is different in a dictatorship.

[Foldesi] I believe that during the Kadar era an opportunity to remain decent was given to persons. But only those persons took advantage of this opportunity who did not spasmodically adhere to their positions, and to the advantages that come with those positions. True, it takes courage for someone to rise and say: "I've had enough, thanks, I'm leaving." In other words: It is part of human freedom that one does not agree to play a role which he cannot and does not want to identify with.

[Fabriczki] Of course there are "clean" people, and I hope there will be such people in the future. Janos Kadar is the ideal embodiment of this type. His puritanism was well known. And yet, the characteristic form of conduct is determined by given conditions. Conditions, which were further distorted in Hungary by the consequences of chronic shortage situations. We can transcend the present condition only through the critical analysis of the fiasco of the model we have followed thus far. It is of course always more difficult to confront the causes, than to sit and render a spectacular judgment over a scoundrel! We must regain respect for socialist ideals and for the socialist movement!

[NEPSZABADSAG] And not for politics? Really: Is it not so that nowadays anything related to politics is suspect from the outset?

[Czoma] I should turn around the question: Why shouldn't anything related to politics be suspect from the outset? People experienced that politics indeed were matters of the "naughty behavior of gentlemen," matters from which people will hardly benefit. People do not believe in politics, they do not believe politicians. They lack confidence. And ever since Pocsopetri they are afraid of them. But the lack of confidence is mutual. Those in power do not trust the people either. And ever since October 1956 they are afraid of them.

[Szabo] Granted, the situation of past and present politicians has been one of dependence. But the situation of the members of society was even more a situation of

dependence. The opportunities available to the leadership, as they have been defined thus far, do not provide an appropriate explanation to past events. An adverse reality does not turn into a favorable reality just because one has no alternative. In this regard only those in power are winners, believing that they can stabilize the political situation according to their particular taste. But as it turns out, this kind of endeavor is damaging. It is damaging because it renders society inflexible, and in this sense it becomes a barrier to development.

[Fabriczki] I will make a confession, if I may. I make a living out of politics, I am a professional. But I am not a mercenary!

[NEPSZABADSAG] What's the difference between the two?

### **The Modern Day Persecuted**

[Fabriczki] I will not serve just anyone and every cause!

[NEPSZABADSAG] And why did you announce this just now?

[Fabriczki] I did so, because nowadays the number of mercenaries is on the increase, and the mentality of mercenaries is spreading. What do I have in mind? The Earth is shaking, the earlier method of exercising power has run into a dead-end street. The mercenary is running away, leaving behind everything. This is humanly understandable, but just who is running away does make a difference. The army of the modern-day persecuted is on the increase. Those who at present are trying to make us believe that during the past 10 or 15 years—as of recently also referred to as the period of stagnation—they were disregarded, set aside. Well.... They say that, while they have been spreading on the cushioned seats of their official cars all along. I have higher regard for overt opponents than for those who sometimes claim to be dogmatists, and neophyte reformers at other times, depending on which direction the wind blows.

[NEPSZABADSAG] This is a tragic comedy.

[Fabriczki] Just as it is tragi-comic that in certain leadership circles a certain kind of bidding began. The name of the game: "Which one of us is capable of removing himself in the most spectacular way from the past and from the MSZMP?" They want to make themselves acceptable to a future coalition. The membership is more outraged by the idea than those who have benefitted from the system thus far, and once again intend to reach the other shore without the membership.

[Foldesi] I also find this conduct condemnable, but let's accept the idea that an inner conviction may also trigger the ominous turnaround. There are such things, there may be such things.

[Szabo] The bidding "disease" has also raised its head in our ranks, but in a different context, of course. For this reason we sometimes take larger than warranted steps. True in the present constrained situation of having to

take steps it is better to act earlier than to be sorry later for failing to respond, for not taking advantage of an opportunity that offered itself.

[Fabriczki] Today the various political forces must face the contradiction implicit in the fact that their political interests are not always consistent with the requirements dictated by morality. At the MSZMP, around our house the spasmodic insistence on adhering to the mechanisms and methods we have gotten used to, and to the positions we have become accustomed to, hides the greatest danger of a moral character. This is so, even though it is obvious that without the changing of persons there cannot be a changing of models!

[NEPSZABADSAG] But would the representatives of the old model be willing to place the national interest ahead of their own interests?

[Fabriczki] This is the big question confronting both those in power and the opposition.... On the other hand, this dilemma may be defined as follows: Is it permissible to prolong the crisis, to conserve the government's limited ability to act in hopes of excluding the MSZMP and of winning a full election victory?

[NEPSZABADSAG] What is the danger here?

[Fabriczki] A dramatic change in the economic crisis, one that could be averted only by a determined government capable of acting, a government which received its mandate from a legitimate parliament—legitimate, not only by the letter of the law, but also on the basis that the parliament mirrored the political composition of the country. None of the parties are prepared for an election. Not even the MSZMP. Accordingly, holding the elections at an early date is not in the interest of the party. It is more than that: It is in the national interest.

### **The Only Authentic Yardstick**

[NEPSZABADSAG] I would ask you not to deal with matters of daily politics. I would much rather hear you respond to this question: Is it necessary that a given course of the exercise of power, a given policy, be morally immune to attack? I'm asking this because—and see the examples, Hitler and Franco—amoral power can also produce success. Accordingly, do the ends justify the means? Are the means cleansed by success?

[Foldesi] In East European countries it is still a widespread belief that politics and morality are two different matters. In politics, they say, only the results count, not the intentions. I strongly disagree with this idea, because the politicians of a given policy must indeed be measured and qualified by the standards of morality. To accomplish such measurement and qualification, however, the need calls for openness, uninhibited by so-called information policies.

[Czoma] A policy course can be credible only if its backbone has moral content. If the leaders of that policy do not change their views in regard to matters of principle on a daily basis.

[NEPSZABADSAG] Is there a rule by which it could be determined how many times a politician may change his views without being held culpable?

[Czoma] There is no rule, but one thing is certain: There can be no compromise in matters of principle. Whoever is caught compromising should get up and leave. He should not wait until he is forced to leave!

[Foldesi] Politicians must know that every one of their actions has a moral aspect. Thus they cannot escape from being judged on the basis of morality. On occasion, however, the requirements of political considerations and of morality may come into conflict. In foreign policy, for example. We frequently negotiate with persons with whom we would otherwise not sit at the same table. But then and there, politics de facto demands that we accept the possibility of negotiating.

[Szabo] The moral basis of politics is provided by its character of being principled. If necessary, principled politics will accept the idea of making detours, it will make concessions if it must. But politics cannot deny the fundamental values which guarantee its principled character. Because at that point it no longer is what it claims to be. Accordingly: Views may be changed as long as the fundamental values do not suffer.

[Timko] Politics and morality are inseparable. Just as the pairing of the concepts of an individual and the community which constitute a dialectic unit are inseparable. The tragedy of socialism is that while shifting between the extremes of individualism and collectivism it slid into either one or the other extreme. It was unable to establish the healthy proportion, the healthy measure, unity between the two. Under optimum circumstances a person stays in a given community because of his inner conviction, and does not accept the everyday framework that exists for him as a matter of being coerced. And since such a person is an autonomous being, he will recognize that by himself he would not suffice to formulate the world, therefore he associates with others. Viewed this way, the process of the various tiers of community—workplace—family—is fulfilled by the state. On the other hand, in Hungary the concept of the state is also misinterpreted, and has negative values. Even though the state should guarantee the freedom of the individual as well as of the community. We can talk about a constitutional state only if we achieve this condition. Because in this form the law and the state are mutually presumptive concepts and systems of guarantee. Thus the state became a real, organized human community, where morality and laws guarantee free choice. Because human freedom is not the freedom of the autocracy.

[Foldesi] In probing the relationship between politics and morality we must also touch upon the manner in which human rights prevail in a given country. Because without the guarantee of such rights no one can walk with his head raised. Unfortunately, in socialist countries huge contradictions have arisen between proclaimed principles and practice. In a constitutional state the law is not a means which can be set aside instantly, as soon as the interest of those in power so requires. Accordingly, the MSZMP can regain the people's confidence only if it accepts the traditional moral code; simply put: if it accepts a new sense of morality. Political renewal is inseparable from moral renewal.

### Our Everyday Liberties

[NEPSZABADSAG] Accordingly, politics and morality not only can be reconciled, they should be reconciled. In general, how will this process be influenced by free, democratic elections?

[Czoma] In and of itself an election will resolve nothing. Unless we pay attention, the new power will also believe itself to be the prettiest, smartest, and fairest. And then we are at the same place we were before. Brakes are needed, injected into the political process, into the machinery of power by the people. Accordingly, I am underscoring the importance of control. Power is not qualified by the adjectives we attach to it. It is qualified by the degree to which it is capable of integrating and making use of the multitude of views.

[Timko] Without disputing the significance of political election, I believe that the everyday choices we make are really important and fundamental to us. Whether our will freely prevails in those choices. Whether our individual autonomy becomes part of the body of local self-governance. And in this regard our backwardness is rather great. Major political choices are wrought with risks until such time that political conditions and the conditions of self-governance become transparent. I am not concerned of course about the MSZMP being pushed out of power. One has to consider that possibility if elections are free and democratic. What I am concerned about is that, not of their own fault, people will not be able to appropriately prepare themselves for making such a historic decision. They must be helped, because they are not in a position to make decisions. On the other hand, those in power are not in a position to make decisions either. But among them the responsibility is shared in a different way. At the same time the fundamental issue of morality is responsibility. Do I have answers to the challenges presented by life? It is of great concern to me that in this regard those in power are silent.

[Fabriczki] Since I view openness as an irreversible process, I trust that we may reach a higher level of morality. An increased fulfillment of constitutional statehood will reduce the contradiction which spans between positive law and the requirements of morality.



[Czoma] Politics and people should not have two separate perceptions of morality, because if they do, the politician and the individual will also have separate sets of morals. Such a rift may be fatal.

**Hankiss Describes East European Alternatives**  
25000268 *Budapest FIGYELO in Hungarian*  
27 Apr; 4, 11, 18, 25 May 89

[Excerpts from Elemer Hankiss' upcoming book: "East European Alternatives"]

[27 Apr p 24]

[Text] "Where can this dichotomy between freedom and oppression, hope and agony, that has become so characteristic of Hungarian society since the late 1980's, lead us?" asks Elemer Hankiss, in his soon to be released book, entitled "Kelet-europai alternativak" [East European Alternatives] (Economic and Legal Publishers)

Moving into 1989, this stalemate, this sense of being trapped between conflicting interests and conflicting goals, still has not evolved. The processes are still in flux, and the party leadership still has not dug itself in; the framework of a constitutional state and of a market economy is still taking shape, and the cells and networks of a civilized society are gaining strength. In theory these are expected, sometime in the future, to bring the party state and society closer together, provided that the economic crisis facing us does not tear the country completely apart.

In the last few months of 1988, it was already clear that the Hungarian political leadership had also been weighing the prospects of national solidarity or national compromise. More and more official statements have been stressing the need for a national compromise and the necessity of entering into coalitions with alternative movements that espouse the principles of socialism. To quote from one of these statements: "Pluralism is unavoidable. What is needed first, however, is a compromise between the ruling power and the people, one which also affords a role to the new parties. Another way to put it would be to say that the establishment of political pluralism should be preceded by a compromise between the ruling party and society."

At the turn of 1988-89, however, just the opposite sequence of developments was considered feasible by most alternative movements. Generally, moreover, they felt that it was still too early to talk about a compromise. First they would have to gain strength, work out programs of their own, establish a countrywide network, and only then could they envision any kind of an agreement or "coalition" with the MSZMP [Hungarian Socialist Workers Party]. By the end of 1988 and early 1989, however, most of them already appeared willing to engage in "roundtable discussions."

### The 'Benevolent Czar' Scenario

In Eastern Europe—and particularly in the Soviet Union—there is nothing left to hope for except that someday a "benevolent czar" will come who will be able to carry through the necessary reforms despite the intransigence of the Kadar elite, the new class, and the bureaucracy (see, for example, Zaslovsky [1982] pp 10-13).

### The 'Gorbachev' Scenarios

These scenarios cover a rather wide spectrum. There are those who talk about a new "benevolent czar" scenario within this context; others see the emergence of a technocratic or authoritarian development policy; still others speak of the unfolding of various reform and populist scenarios, including that of a constitutional reform, and that of a genuine democratization scenario. Today it is still impossible to determine which of these scenarios the Gorbachev phenomenon will eventually evolve into as it continues to be molded by various internal and external factors. The experts are by no means in agreement on this question. In a 1987 lecture, for example, Stephen Cohen argued that Gorbachev had created an "unprecedented historical opportunity for change." Mlynar, who has studied the East European crisis closely and whose ideas we have already referred to in discussing the so-called bankruptcy scenarios, has himself become guardedly optimistic in this regard. (Mlynar, 1986a, 1986b). Others, such as Richard Pipes, are much more skeptical, for they believe that there is not much chance of improving the system. Proceeding even further toward conservative conservatism: Bukovski, Zinoviev, and others deny, or at least in 1987 still denied, the possibility of any kind of significant change ever taking place in the Soviet Union; they claim that the Gorbachev scenario is a mere diversionary strategy which the ruling elite, or a faction within that elite, aims to use to strengthen its positions in the face of a crisis situation, build up the economic and military potentials of the Soviet Union, and narrow the gap between itself and the developed world. Or at best, they view it as an attempt destined to fail, sponsored by an enlightened group within the nomenclature whose objective supposedly is to make a corrupt system more efficient and more popular.

In any case, whatever may be happening in the Soviet Union, it is unquestionable that the Gorbachev phenomenon has already had a side effect in that in Poland and Hungary—and to a lesser extent in East Europe as a whole—it has created relatively favorable conditions for economic and sociopolitical transformation.

In connection with the scenarios below there is a basic question that will definitely have to be answered. I am referring specifically to the question of why the elite would be willing to accept the serious risks entailed by the introduction of a program promoting the country's democratization. Or to be more precise: Why do

reformist intellectuals think that they will be able to convince the ruling elite that these risks are worth taking. At the end of the chapter we will get back to these questions.

#### **The 'Change in Two Steps' Scenario**

As a first step, only a technocratic type of reform is possible; this, however, may lead to a second developmental period, that of a democratization-oriented reform. Or at least it can gradually expand the scope of true publicity, and result in a campaign against corruption, nepotism, and favoritism. In the 1980's—for the first time since the 20th congress—the Soviet Union can once again become the driving force behind the East European reform process (Mlynar, 1983). Other two-step scenarios foresee the possibility of a transition from enlightened absolutism to democratic socialism: This may be either a transition from an elitist type of patrician democracy, or perhaps a transition from an intra-institutional form of quasi-pluralism, to a genuine kind of social and political pluralism. This two-step feature can be found in several of the scenarios discussed below.

#### **The 'Economic Reforms Will Lead to Democratization' Scenario**

This hypothesis and hope had been one of the driving forces behind the Hungarian economic reform of 1968, at least insofar as the progressive faction of that time had perceived and planned it. (The conservative groups, on the other hand, had wanted to use these very reforms to forego any far-reaching social changes.) "Marketization," in other words economic pluralization, is still considered by many in East Europe (e.g., Ota Sik) to be a precondition of political pluralization and democratization; others, including Brus as we have seen, are of just the opposite opinion, arguing that the success of economic reforms is preconditioned on political democratization. Nowadays, most experts seem to agree that there is indeed a close relationship between these two processes.

The Hungarian experiment does not constitute decisive proof in this area, for in our country we still have not experienced real and genuine political pluralization. Having analyzed the results of a nationwide poll, Robert Manchin came to the conclusion that the entrepreneurial stratum, i.e., the most dynamic group of the second economy was—contrary to his expectations—at least outwardly, politically more loyal and more conservative than the average population. If this is indeed so, then this stratum cannot be considered to be the driving force behind the democratization process (Manchin, 1988). This, however, appears to be contradicted by the fact that the provincial membership of the Hungarian Democratic Forum, according to the news, is recruited mainly from two social groups: on the one hand, from among teachers and populist educators, and on the other, from among private entrepreneurs. These reports, however, still need to be confirmed.

#### **The 'Revisionist,' 'Revolution from Above,' and 'Prague Spring' Scenarios**

The revisionists of the 1960's had been more or less radically critical of Stalinism and state socialism, while continuing to maintain their faith in the basic values of Marxism, and promoting radical reform plans. The proponents of this trend had strongly believed in the communist elite's ability to fundamentally reform itself and the system, and to build a new form of "socialism with a human face." They had faith in its ability to separate political power from the economy; in its ability to relinquish its monopoly of power and establish in its stead a limited multiparty system that would operate within the framework of a national front; in its ability to rid the system of political terror, and to give up its monopoly of information; to reorganize the economy on the basis of self-management, and to guarantee human rights.

Revisionism barely survived beyond 1968, but this faith in a revolution from above to be led by an enlightened, morally cleansed elite, one that would struggle with equal commitment against the dangers of totalitarianism and what has been described as social anarchy, has continued to reappear from time to time, and presumably it will continue to do so in the future.

[4 May p 24]

[Text]

#### **The 'Societal Control Without Societal Participation' Scenario**

In Hungary, Andras Hegedus was the first to define this scenario. Already in the 1970's, his argument was that owing to a variety of factors (the lack of democratic traditions, the existing power relations within and the geopolitical situation of the country, etc.), all plans aimed at establishing a Western-type, multiparty system-based parliamentary form of democracy in Hungary was anachronistic and unrealistic. The ideal strategy, according to this scenario, would be to encourage society to develop its own formal and informal organizations of social control; to help the trade unions transform into genuine social organizations of interest protection; to promote the establishment of as many social movements and interest groups as possible; to take greater advantage of the opportunities presented within the framework of the popular front; and to help launch a peaceful but consistent struggle in various areas of society aimed at expanding and protecting human rights. This richly woven network of social control could gradually reduce and restrict the arbitrary character of power. After 1981, many of Solidarity's former leaders espoused the basic principles of a similar strategy. In our country, this direction of thinking would not be considered opportune again until 1987 and the second half of 1988. It was in this spirit that many reform programs were conceived (without—in most cases—anyone ever referring to Andras Hegedus' contribution in this area). By the

second half of 1988, with the acceleration of the pluralization process, political thinking and the ensuing events had moved beyond this concept. With a return to the old, rigid system of power, however, this scenario could become appropriate again at any time.

#### **The 'New Corporate' Scenario**

In 1987, some of the experts were of the opinion that under the given circumstances there was no possibility in the East European countries for a fully developed pluralistic political system to evolve. This, however, did not mean that they could move away from an authoritarian system toward a democratic system. One possible strategy and transition would be to develop a well functioning, new corporate system that would solve the problem of bringing together and reconciling certain fundamental economic and social interests. This would be a secondary, auxiliary mechanism that would function within the framework of the one-party system, but within its own sphere it would enjoy a high degree of independence, and its members—the trade unions, the Economic Chamber, the TOT [National Council of Producer Cooperatives], the KIOSZ [National Organization of Artisans] and other social organizations and corporate bodies—would play an autonomous role in its work. Its supreme body could even operate as a second house of Parliament.

The trade unions' attainment of a relatively independent status and their (cautious) confrontation with the government in 1988 (because of the government's economic program and standard of living policy) may turn out to have been an important episode in the development of a new corporate mechanism. Moreover, the National Interest Protection Council, formed in October 1988, could already serve as a forum for high level corporate reconciliation if economic and sociopolitical decisions of far-reaching importance did not continue to be made outside of this body, in the highest echelons of the party leadership,

#### **The 'Intra-Institutional Pluralism' Scenario**

In the mid 1980's, most experts were still convinced that the evolution of a multiparty system would be a slow and lengthy process. Several people, on the other hand, felt that in the meantime, during the interim period, many elements of pluralism could already be built into the sociopolitical system, e.g., as follows:

- We could have, within the party, some interaction among various programs, groups and factions, and the prevailing so-called democratic centralism could give way to an intraparty form of pluralism, and to an increase in the role of these bodies vis-a-vis the apparatus.
- Similar competition could evolve among different groups and programs in the Patriotic Front.
- In the trade unions and in the area of interest representation, people must be given the right and opportunity to form independent interest representation organizations and to elect their own representatives.

In other words, we need a strategy which—as a first step—would create pluralism within the institutional system. Thus there could be hope that in a subsequent second phase such divisions within the institutional system might lead to the establishment of their own inter-institutional network, a system of institutional pluralism.

Mlynar also feels that it is important for pluralism to gain strength among the elite. In his opinion, the fate of the Soviet reforms, to a great extent, will depend on whether or not the various groups within the ruling elite will be able to reach compromises instead of working on getting rid of one another. "From the point of view of the democratization of society as a whole the crucial thing to look for is whether or not the highest-level political organization, the communist party, which as a social group also incorporates the so-called ruling elite, will be able to democratize itself. If this social group does not accept the democratic rules (including the fact that relations between the majority and minority must be regulated by way of compromises), then how—in a society led by them—could democratic practices be expected to evolve?"

#### **The 'Transition From Absolute Monarchy to Constitutional Monarchy' Scenario**

This is the historical parallel that lies behind many political reform scenarios. This line of thought proceeds from the precept that the transformation of absolute into a constitutional form of monarchy has already occurred in many countries throughout history. Why couldn't we have a similar process taking place now in East Europe, for example in Hungary, where in the 1970's the form and style of rule resembled many features of the absolute monarchies of the 18th and early 19th centuries. Those who refer to these parallels are naturally fully aware of the differences between the two historical contexts and political systems.

Some experts feel that there could even be another step or transformation: from an "enlightened socialist absolutism" to "democratic socialism." Breslauer takes it even further, arguing that it is possible to move from a liberal version of welfare authoritarianism into a kind of "elitist democracy," and then even further, into a "broadly based democracy." Apter suggests that it is possible to move from a so-called modernizing autocracy into democracy.

[11 May p 24]

[Text]

#### **The 'Social Contract' or 'Self-Limiting Pluralism' Scenario**

In the 1970's, Janos Kis and his followers were the foremost proponents of the civil society scenario. In 1987, they worked out a comprehensive reform program

which was a combination of the "civil society" and the "constitutional state" scenario. Lending special significance to this document was the fact that it was the first to openly assert that the sociopolitical system that had evolved in the 1950's, 1960's, and 1970's, i.e., the system associated with the name of Janos Kadar, had become incapable of functioning. Moreover, this was the first comprehensive program aimed at effecting a radical transformation of social and political institutions; the democratic opposition appeared to be ready to engage in a dialogue with the party state, suggesting to sign a social contract between the party and society.

One of the preconditions of such a contract is for both the party state and society to accept restrictions on their demands. Within certain limits, both sides must be willing to accept constitutional and legal controls on their activities. Thus within the first phase an authoritarian constitutional state would be established which would later evolve into a more democratic form of government. The changes in the first phase would—among other things—involve the following:

- a. The party role would be defined by the constitution; its rights and activities would be regulated by law. Its ability to arbitrarily interfere in the country's economic and social processes would be limited to a minimum.
- b. The internal structure of the party would be reorganized according to the rules of democratic participation. The elected bodies would oversee the implementation of all executive functions.
- c. Parliament would become the independent legislative body of the country. During the transitional period alternative parties would not be allowed, but nominees could run in the elections on the basis of individual or group platforms.
- d. The workers would have the constitutionally guaranteed right to form independent corporate organizations. The existing trade unions would be replaced by a federation of independent trade unions. The officials of trade unions and other corporate bodies would be elected by the membership. Only the judiciary would have the power to place restrictions on the functioning of these organizations.
- e. State enterprises, cooperatives and the larger private enterprises would be governed according to the principles of self-management. The interests of self-management and employee interests would be separated by way of institutional guarantees.
- f. A new corporate system of institutions would be established within which the trade unions, the Economic Chamber, the TOT, the National Federation of Entrepreneurs and other large corporate federations would negotiate among one another and with the government on certain basic issues.

g. Civil rights would be constitutionally codified and guaranteed. Only through the judiciary system would the government and the party have the right to control the press.

h. The independence of the judiciary would be reestablished.

i. A social policy would be developed that would take into account the existing needs and circumstances, guaranteeing basic social justice and fairness.

This program has played an extremely significant role in the acceleration of the domestic reform process. It was the first to summarize the demands and recommendations which for years have been circulating in the secondary, and partially already even in the primary, forums of publicity. Its specific ideas have appeared not only in the programs of the various alternative movements (e.g., the Federation of Free Democrats, the Hungarian Democratic Forum, the FIDESZ [Association of Democratic Youth]), but also in the official (government, party, trade union, etc.) programs. It was in the fall of 1988, during the weighing of plans pertaining to the introduction of a multiparty system, that the first, even more radical, programs were introduced.

#### The 'Constitutional State' or 'Rex sub lege' Scenario

In the totalitarian and post-totalitarian societies the *rex sub lege* formula is the rule in effect, in other words, the law is subjected to the arbitrary actions of the ruling elite. The elite has practically unlimited powers to make, revise, suspend, or simply ignore laws. In complex modern societies, however, this situation may lead to the danger of growing confusion, deteriorating effectiveness, and sooner or later to ungovernability. This process may eventually reach a point where it undermines the power of the ruling elite itself. At that point the elite may become convinced that certain restrictions imposed on its arbitrary rule are unavoidable, and that it may even derive some benefits from them. This would offer society certain opportunities to start working on establishing the basic structures of a constitutional state; i.e., on creating a system of institutions in which rights and obligations are precisely defined, in which the elite is subject to the law, and in which the "*rex sub lege*" formula rules.

For years now, several groups of lawyers have been working in Hungary on defining new laws, statutory provisions, and eventually a new constitution or a set of statutes that would facilitate this transition, and would put the machinery of a "constitutional state" into motion. In the spring of 1988, Mihaly Bihari prepared a comprehensive plan, a so-called democratic package plan, in which he listed the following tasks awaiting action:

1. The creation and strengthening of party democracy
2. Reform of the national assembly
3. Establishment of the function of head of state to be elected directly by the citizenry
4. Reform of the electorate system

5. Reform of the government system
6. Establishment of an independent constitutional court
7. Establishment of an administrative court
8. The guaranteeing of judicial powers and independence
9. Establishment of regional self-government and democratic local rule
10. The enactment of laws guaranteeing the possibility of citizen- originated initiatives and the institution of public referenda
11. Detailed regulations and laws guaranteeing human rights
12. The enactment of democratic laws guaranteeing the right of assembly and association
13. The enactment of democratic trade union laws
14. The enactment of laws guaranteeing freedom of the press
15. Constitutional regulations pertaining to enterprise and cooperative self-management and proprietary rights

In June 1988, this package plan was submitted to Parliament by 15 deputies. Contrary to expectations, the national assembly did not reject the proposal; instead, it referred it to a higher level committee for a thorough study.

In the meantime, however, the political process became accelerated and radicalized. In the summer and fall of 1988, at first somewhat timidly but later with growing confidence people were discussing the emergence and establishment of a multiparty system, an idea which has suddenly come into the focus of international attention. In the light of their foreign travels and an increasingly active domestic public opinion the leaders of the party have displayed surprising flexibility in reacting to these developments, repeatedly stating that in principle they were not opposed to such developments, but that for the moment they (still) did not consider them timely. Society, however, became increasingly more active in this area. So much so, that in the fall of 1988, "pre-parties" or "proto-parties" began to form, and former parties began to reorganize (e.g., the Hungarian Democratic Forum, the Alliance of Free Democrats, FIDESZ, the Smallholders' Party, and in January 1989, the Social Democratic Party of Hungary). These organizations began to establish their national networks, and announced that in the next elections they intended to nominate candidates of their own. The new law on the right of association enacted on 12 January 1989 temporarily suspended the possibility of forming parties, but the government did commit itself to submit to Parliament a draft proposal pertaining to the founding and operation of parties by no later than 1 August 1989.

None of this, however, slowed down the process of pluralization: In January 1989, our party and state leaders, as well as the spokesmen of the alternative movements and the representatives of the press, were talking virtually as an established fact about having nominees of several parties running in the 1990 national elections, and perhaps in the local elections that are to be moved ahead to the fall of 1989. Whether they will be

competing with one another, or they will be forming coalitions of one kind or another; whether there will be individual electoral districts, or (joint or separate) lists, are questions which the debates that commenced in January 1989, have barely begun to address.

In the fall of 1988, Mihaly Bihari wrote several studies and gave a series of interviews outlining the schedule of transition into constitutional socialism. In his opinion, during the transitional period of a few years, only "a limited and preplanned multiparty system" can, and should, be attempted. By limited and preplanned he means that the Communist Party would be assured at least a 51, but not more than 55 percent majority in Parliament. This way, the party would be able to retain its hegemony during the transitional period, and would have ample time to prepare itself for a completely open type of parliamentary politics, without enjoying any other privileges. It needs to scale down its nomenclature, eliminate its formal and informal channels of influencing the holders of legislative and executive power, and submit itself to the constitution and the laws that are in effect. This plan has run into considerable opposition within both the party leadership and the alternative movements. The former oppose it because it would restrict their power, while the latter are concerned that it would restrict their opportunities.

[18 May p 32]

[Text]

#### **The 'Radicalization Spiral' or the 'Compromise' Scenario**

Self-restraint in the pursuit of reform attempts was an important element in most of the scenarios reviewed above. As we saw, instead of social participation their proponents have only demanded "social control;" instead of a democratic political system they have spoken of "constitutional socialism;" instead of pressing for radical changes they have proposed "social contracts" committing both sides to acting with self-restraint; instead of simply calling for a multiparty system, they have continued to work toward the establishment of a "limited and preplanned" multiparty system; and so on. At the turn of 1988-89, however, several positions and programs emerged that have placed special emphasis on self-restraint.

Several of them, most notably Istvan Schlett and Bela Pokol, have spoken dramatically about their concern that the radicalization of social reform attempts, and the rigidity and restiffening of the existing power structures, would lead to a growing polarization of public life, and eventually to an explosion. Today there is already a serious danger—they write—that we are leaving the brief historical period during which there was and still is a chance for arriving at an agreement, a compromise between the ruling power and society. The essence of this compromise would be the sharing of power (Bela Pokol), in other words the establishment of a "dual political system" (Istvan Schlett). There are two feasible versions



of this compromise: a) The "pure sharing of power," or "manifest dualism" version. Under this model the bulk of the power would be divided between the head of state (and perhaps also the Central Committee functioning as a second house of Parliament) appointed by the party, and a freely elected parliament functioning on the basis of a multiparty system, with the rights of both sides carefully defined by the constitution. b) In contrast, under the "latent dualism" model, the party would retain a certain degree of control over the election process as a means of securing its position. Other solutions could include guaranteeing the party a 51 percent majority in Parliament; raising the number of candidates the party could nominate on the national list; limiting the choice of candidates in each district to two, one nominated by the party, and one from a list of all of the other parties combined; giving the party the right to remove a certain percentage of the nominees submitted on the other parties' lists of candidates, and so on. Under this model the head of state would be elected by popular vote from among candidates approved by the party.

Both authors emphasize that time is running out, and that if we fail to take advantage of the opportunities that are still available we will hardly be able to avoid the kind of "military-administrative crackdown" that the Polish leadership had tried to impose at the end of 1981, and which may lead to lasting deterioration, a chronic state of bankruptcy and—even worse, as in the case of Romania—to an "increasingly totalitarian imposition of military and police terror." The authors also stress that such a compromise will require great political wisdom, a sense of political realism and extraordinary self-restraint.

The members of the New March Front must have been guided by similar ideas when on 14 January 1989, they published an appeal calling on all political organizations and movements with "comprehensive programs" aimed at solving the existing situation to get together and form a national constitutional council. The task of this council would have been to draft a new constitution by involving all of the country's important political forces in the process, i.e., by working within the framework of a broad social consensus. The appeal had outlined three alternatives. The most feasible of the three was a plan whereby the council would first prepare the election of a second chamber of a constitutional assembly: Elections to this body would take place in the fall of 1989, concurrently with the local elections. Once in place, this second chamber would draft the new constitution and other basic statutes. Its recommendations would be debated by the first house of Parliament (which would be the same as the presently functioning National Assembly), which could return it to the second house or chamber for revision. The first house of Parliament could adopt the new constitution sometime during the first half of 1990, upon which it could call for new elections to be held in the fall of 1990. According to the authors of this appeal this solution would well lend itself to an explosion-free transition, for it would fundamentally democratize the

constitution drafting process while at the same time ensuring—by keeping the first house as is—a sense of continuity. (New March Front, 1989.)

Understandably, those at the helm insist on retaining all of their powers, and conceivably will be willing to discuss a genuine sharing of power only if they see no other way out. They have behind them a seemingly uncontested superiority of power, an enormous apparatus and repressive organization, huge assets (party assets), and four decades of an undisturbed monopoly of power; compared with them the alternative political movements are still pitifully weak, helpless, poor, and scattered. Why would they relinquish their power and superiority voluntarily? Why would they engage in serious, and not merely tactical, negotiations about the sharing of power, about imposing genuine and effective controls on their own power, or about fundamentally transforming the political system?

Nor can it be said that the increasingly more active groups, strata, and movements of society are prepared to compromise. They are well aware of the party state's enormous superiority of power; on the basis of the experiences of the past 4 decades they are distrustful toward the party oligarchy; they are aware of their own weaknesses; they feel that the only way for them to become equal or at least strong enough negotiating partners is by first becoming organized, working out their own programs, and establishing their own national networks. They must also keep in mind the various legal admonitions voiced about the distorting effects of a "bad compromise" on the nation, on society, and on the soul that are the most loudly heard among those social strata which today are in the very forefront of the reform process. Also difficult to dispute is the warning that a bad compromise might distort the economic and political development of Hungarian society, retarding it for decades.

So much about the reform scenarios. We have seen that the selection is great, and the spectrum of scenarios is broad. In order, however, for any of them to become a reality, their proponents' intent to make things better and the support of certain strata and societal groups are not enough; the ruling elite must also be willing to go along with them. Or at least there must be a compelling need for reform that will eventually whirl them along.

Naturally the proponents of the reform programs are trying to win them over, trying to dismiss their fears, trying to prove to them that a radical transformation of the system can no longer be delayed. Several different lines of reasoning have been heard in this connection.

—The "But you are all good and honest people just like we are" line of reasoning, for example. We are all working toward the same goal, for the betterment of the country. During the Prague Spring you proved that you were capable of genuine renewal. Let us work

together. And so on. (These arguments may be combined with the "Divide et impera" strategy, in other words, reform proponents may try to seek ties with the so-called pro-reform faction within the party leadership.)

[25 May p 32]

[Text]

- The "But this is not even a really dangerous thing to do line of reasoning. Your risk is minimal, since all of the means of control are at your disposal. You have the power to stop the democratization process at any moment if you feel that it threatens your interests. (This line of reasoning may also be combined with the Jack and Jill strategy: hold out a finger and we will drag you into the honeycake oven. Once the process begins it will be difficult to stop...)
- The "But it is also in your interest" line of reasoning. The whole system has become dysfunctional, wasteful, and impossible to govern; you will gradually lose your ability to control it. Your interest also dictates that you make the system more rational, more effective, and easier to govern. So here you are, these are the plans you need to make the necessary changes.
- The "Catastrophe situation" line of reasoning. You need to act quickly. The country is facing a deepening crisis, and is at the brink of bankruptcy. We cannot waste any more time. If you do not act quickly, you will destroy the country as well as yourselves.

Let us admit, none of the arguments outlined above sound really convincing. The only reform scenarios that stand any chance of making it will be those that are accepted and implemented by the leading elite, and which can offer tangible guarantees that they will not threaten the elite's power. In other words, scenarios that can offer the elite an opportunity to somehow convert its power and privileges into powers and privileges that are compatible with the evolving new system. The reform programs do not, or barely, address the possibilities of conversion. Most of them go only as far as promising that the transition will be slow, or that if the elite is willing to curtail its powers, then society, too, will limit its demands for freedom. They are talking about the possibility and necessity of an agreement, or a compromise between the ruling power and society.

In the absence of real guarantees, however, the ruling elite feels compelled to hinder, and remain poised to interfere with the process of economic and social change. And it will have to mercilessly put an end to it if it feels that the process has gone so far that it can no longer protect its position of power. And more than likely this point in time would, if it were left solely up to the reformers and the social movements, sooner or later arrive. Fortunately, however, below the political surface there is an economic and social process evolving which, in my opinion, may help the country to overcome this hurdle, this abyss, this mine field.

## POLAND

**POLITYKA Weekly News Roundup**  
*26000557a Warsaw POLITYKA in Polish*  
*No 23, 10 Jun 89 p 2*

[Excerpts]

### National News

[Passage omitted] The Ninth Sejm ended its work. The last, 50th session was not ceremonial in the least. The deputies adopted several changes in laws (press, retirement, alimony fund, customs). Amendments to the press law state that in order to publish a daily or magazine it is not necessary, as heretofore, to obtain a permit from the Main Office for the Control of the Press, Publishing, and Public Performances; it suffices to provide the office with an application for registration; the obligation to register so-called small printing equipment has also been ended. The Office for Control can only refuse to register a magazine if it violates the provisions of the press law or the legal protection of a title, or if there are objections to the person of the editor in chief. The liberalized provisions of the customs law were adopted unanimously: the prohibition against importing printed matter, etc., damaging to the People's Republic of Poland remains, but single copies of a given item imported by physical persons are exempt from this provision.

The PRON National Council adopted a resolution posthumously awarding the Polish officers interned in 1939 in Ostaszew, Starobielsk, and Kozielsk, the medal "For the Defensive War 1939." The families of the victims can pick up the medals.

At a pre-election demonstration in Gdynia, Lech Walesa announced that Solidarity has still not adopted a position on the person of the future president and again expressed his aversion to running for the position. "There is not," Walesa emphasized (according to PAP), "another party or policy force in Poland prepared both domestically and externally to govern the country. In four years these three parties have the greatest chance of winning policy elections, if they think progressively."

Roman Malinowski, president of the ZSL Main Committee, in telephone conversations with readers of RZECZPOSPOLITA in response to a question concerning the extraordinary Congress of the party: "Not extraordinary, but accelerated, for more normality than extraordinariness is needed in Poland." R. Malinowski announced that there will be a national conference devoted to the "blank spots" in the populist movement during the postwar era (20 June 1989), and a national ZSL ideological conference in the fall. These two conferences will enrich the ZSL ideological declaration and program, and these documents will require adoption by the congress, for which the party does not want to wait to the end of the term in office.

The first issue (and 38th counting from the moment of its creation) of TYGODNIK SOLIDARNOSC, the journal of the NSZZ Solidarity has appeared. Tadeusz Mazowiecki is the editor in chief. The format and number of pages is the same as that of POLITYKA (the same printer). Press run 500,000 copies, price 140 zloty.

Ecological decisions. Premier M.F. Rakowski decided to halt production at the Chemitex-Celwiskoza Chemical Fiber Plant in Jelenia Gora, which is damaging the environment. Beginning 1 January 1990, the plants will be shifted to another industry. The residents, the voivodship party authorities, and the Voivodship People's Council demanded the decision, and the Chief Administrative Court had previously rejected the plant's complaint against "the illegal decision to halt production of viscous fibers." Beginning 1 July 1989, the production of some raw-materials divisions and of some aggregates at the Lenin Steelworks in Krakow that are most damaging to the environment will finally be liquidated. The leadership at the enterprise (the management and the workers' council) have accepted the decision since in addition to the ecological reasons the economic situation of the works has been taken into account.

A spokesman for the Ministry of Foreign Affairs has presented steps to improve the structures and reduce the number of military personnel under the Ministry of Foreign Affairs. Over two years, the number of Border Guard Troops will be reduced by about 50 percent. Some of the people and resources will be made available to the Citizens' Militia, especially in the large agglomerations. In all, by the end of 1990, five brigades will be dissolved, one motorized regiment, one independent battalion, 15 battalions in units, and 30 other smaller units.

The export of strawberries and salted mushrooms will be included in export permits for individuals; in 1989, exports totalling 15,000 tons of chilled strawberries and 200 tons of mushrooms will be permitted.

Each retiree and pensioner will receive a 30,000 zloty advance in June on the recalculation of benefits to be started in July.

A joint delegation of the OPZZ, NSZZ Solidarity, Individual Farmers' Solidarity, Union of Farmers, Agricultural Circles and Organizations, and the Association of Employers, led by the minister of labor and social policy, will attend the annual session of the ILO.

At the Gdansk Shipyards an agreement between Barbara Piasecka-Johnson and Czeslaw Tolwinski, director of the Lenin Shipyards, has been signed creating a Polish-American partnership. Lech Walesa also signed the agreement.

Jaroslaw Pietrzyk, president of Lodz, failed to receive acceptance of his report at the session of the Voivodship People's Council; the Council criticized the situation in

housing construction and the poor performance in retailing (especially meat and sausages). The decisions is equivalent to removing the president from his position. [passage omitted]

The founding congress of the Association of Polish Writers elected its officers. Jan Jozef Szczepanski was elected president. Five hundred writers in Poland and abroad have applied for membership. [passage omitted]

#### On the Left

[Passage omitted] The death penalty has been rescinded in Hungary for crimes against the state.

The MSZMP Central Committee changed a resolution of the previous plenum on calling a National Party conference. It has decided, as a result of demands by MSZMP members, to call a party congress in the fall of 1989. Two members of the Central Committee asked for their release: Mihaly Korom, former minister of justice and secretary of the Central Committee, and Sandor Rajnai, current ambassador of the People's Republic of Hungary to Moscow, a former colonel in the security services, who arrested Imre Nagy. [passage omitted]

Andrey Gromyko in an interview for the weekly DER SPIEGEL on the secret protocol of the Ribbentrop-Molotov pact: "I must repeat that there is no proof of the existence of such an authentic document signed by Molotov and Ribbentrop, not including those obviously which were officially published. The 'document' now being distributed is a fake. This is a strong statement, but I use this formulation with complete awareness, with full responsibility." The Congress of the People's Deputies referring to a special commission on the issue of the protocol took a different position.

Todor Zhivkov commented on the ethnic disturbances that occurred in Bulgaria and presented some aspects of Bulgarian-Turkish relations in their light. Fragments: "Bulgaria is the only fatherland (of the Moslem Bulgarian population). These people have lived, live, and will live in Bulgaria, which belongs to all of us regardless of our faith, our customs. . . . For a long time (in Turkey) rumors have been exploited that mosques are being destroyed in Bulgaria, that mullahs (moslem clergy) are being killed. But there was a press conference at which the mullahs themselves "rose from the dead," and a visit to local areas showed that in Bulgaria not only are mosques not being destroyed, but that they are even being renovated and new ones built. . . . In the name of Bulgarian Moslems and my own as chairman of the Council of State, I ask the appropriate Turkish authorities: open your borders for all Bulgarian Moslems, who want to travel to Turkey to visit or to remain permanently. Playtime is over; Turkey should open its borders to the world in accordance with international standards and agreements, as the People's Republic of Bulgaria has done."

Jan Fojtik, secretary of the CPCZ Central Committee: "The past must be protected and simultaneously whatever has discredited the party and socialism or has slandered the banner of revolution must be rejected. However, criticism of the past cannot be allowed to become a justification of counterrevolutionary action, regardless of how it is masked and whatever attempts to enliven its ideological platform are made. This also means it is necessary to defend the present, to explain the inevitability and irreversibility of the process of transformation and democratization."

In one of his interviews for the unofficial press, Vaclav Havel, recently released from prison, said that his reading of the weekly press appears to indicate a significant liberalization in the state's cultural policy and a greater freedom of expression than under the practices of the last 20 years. He added, however, that he was only speaking of the magazines with small printings, for specialized, small groups of readers.

A new association has been registered in Leningrad, which has taken the name "Patriot." Such slogans as "There is no place for anyone in radio or television suffering from russophobia" or demands to reveal the ethnic make-up of the USSR Supreme Soviet make the program of this association very similar to that of the already well-known "Pamyat," although its representatives strongly, at least formally, separate themselves from all groups of that type. Aleksander Romanenko, the leading activist of the new association, is the author of the book "The Class Character of Zionism." [passage omitted]

#### Opinions

[Passage omitted] *Jozef Klasa, secretary general of the Polonia Society:*

(Interviewed by Alicja Basta, TRYBUNA OPOLSKA 29 May 1989)

[TRYBUNA OPOLSKA] Poles from the USSR are demanding the right to visit Poland freely. Those, who had their citizenship taken away in 1939 by a unilateral decision, want it returned. There is talk of forming a Polish autonomous region.

[Klasa] Our Society has sent a proposal to the Polish government to end invitations for those Soviet citizens who have "Pole" in their passports. We want that entry to open the border for them. I do not wish to comment on other issues now.

*Jerzy Kropiwnicki, activist for the Solidarity Working Group from Lodz:*

(ODGLOSZY 4 June 1989)

"The dispute gained strength in the fall of 1987 after the publication of an interview with A. Celinski in NEWSWEEK (23 November 1987) and J. Kuron's brochure "Landscape After Battle," in which they advanced the thesis that the history of Solidarity as a trade union has ended and that it was necessary to change Solidarity into

a sociopolitical movement evolving into a party. We protested because we thought that no one other than a congress of Solidarity has the right to decide the fate of the union, that transforming the union into a party intensified the elimination of activists, members, and institutions, and if someone wants to found a party, he can do so outside of the union, that the judgement is wrong, it does not take into account either the current aspirations of the workers or the need for a trade union in every society, where there are employers and employees.

The spring and summer of 1988 showed that the judgments of the secular left were wrong. The strikes showed that among the workers Solidarity is primarily a trade union, and they do not intend to resign from this union. However, it is a very elastic group, and it is capable of adapting and retaining control of the Union and L. Walesa."

*Jan Labecki, shipyard worker, candidate for deputy:*

(Interviewed by Krzysztof Grabowski, GLOS WYBRZEZA 1 June 1989)

[GLOS WYBRZEZA] You are counting on the party finding itself in opposition.

[Labecki] That is a realistic possibility in my opinion.

[GLOS WYBRZEZA] It is being said more frequently and more loudly that there is a possibility other leftist parties will be founded and that there will be a change in the name of the Polish United Workers' Party.

[Labecki] In 1981, I proposed to the Politburo that we change the name of the party. Why: it would be more beneficial to us to overhaul the party, settle accounts with the past, change the name, and go forward with a clean slate. But my motion did not pass.

## YUGOSLAVIA

**Hudelist's Impressions of Kosovo Serbian Leaders**  
28000130b Zagreb DANAS in Serbo-Croatian  
16 May 89 pp 24-26

[Interview with Darko Hudelist, START journalist and author of the book "Kosovo—Battle Without Illusions," by Milan Jajcinovic: "Milosevic Is Simply Made To Order"; date and place of interview not given]

[Text] Over the last 7 or 8 years, hundreds of newsmen have traveled up and down Kosovo. Darko Hudelist, a newsman who works for START, is one of the rare ones who has collected his observations, encounters, and experiences in one place and probably saved them from oblivion with the "letterbox" ("Kosovo—bitka bez iluzija" [Kosovo—Battle Without Illusions]). With his "Kosovo time travel," Hudelist has destroyed the tragic destiny of newspaper writing, condemned to live but a day. His "time travel," according to the blurb of the

publisher (the Zagreb Center for News and Publicity)—“mutely illustrates all of the aspirations, desires, intentions, and personal and collective ambitions of the principal ‘heroes’ of the various chapters.” And those “heroes” are primarily the so-called Kosovo Polje leaders, headed by the loud and also well-known Miroslav Solevic. In a way, precisely thanks to Solevic and the court ban on START, which published an interview with him (which is part of the book), “Kosovo—bitka bez iluzija” aroused the attention of the media even before it was published.

[DANAS] One of the most important chapters of the book is the one that was in dispute at one time, the one about Solevic, one of the leaders of the so-called Serbian national movement. Why Solevic?

[Hudelist] I would quote a friend of mine, an intellectual who when he read that chapter in START, said: “As far as I am concerned, Solevic is several times braver, several times more uncompromising, and several times more intelligent than Milosevic.” In talking to my friends after that chapter was published, I came to a very interesting conclusion: that the attitude toward Solevic is in inverse proportion, one might say, to the intellectual predilection of the individual in question. The so-called little, ordinary people spoke to me most adversely about Solevic. Whereas many intellectuals admitted to me, not taking his positions and methods into account, that this man is no mediocrity. And there are times when even that can mean a great deal.

In my opinion, Solevic was above the average of his environment. He achieved his goals. Put crudely, he has traveled over almost half of Yugoslavia, or at least two of the administrative units, and he has also become a hero. Solevic moved out of Kosovo. He went to Nis. He has relatives living there, he has a family house there, so that actually he was going back to the place he left in 1971 when he went to Kosovo in search of employment.

[DANAS] Is Solevic’s return to Nis proof that he has fulfilled his mission, that he has played his role, or does it mean something else, that he felt himself betrayed?

[Hudelist] As far as I was able to understand on the basis of our last telephone conversation, he has really withdrawn from political life and, he told me, he has gone into a deserved political retirement and has no further intention to engage in politics. I do not know how honest he was being, but to some extent the circumstances are also such that Solevic can no longer make a difference. Much of that has already been done. He has actually done everything he could have.

[DANAS] There has often been speculation about political ties between Kosovo Polje and Belgrade, at times even Solevic himself has bragged of them. What is actually the nature of relations between the Kosovo Polje leadership and the leadership of Serbia?

[Hudelist] Many people believe even today that not only Solevic, but the entire Committee for Protest Rallies and in general those so-called Kosovo Polje popular platforms, that they were only a transmission belt for Slobodan Milosevic and the top political leadership of Serbia. In my opinion, that is not true at all. There was a tie between Solevic and the other people from Kosovo Polje on the one hand, and the political leadership of Serbia on the other. But that connection was not so simple. It functioned by means of the working group for Kosovo. That is, through members of the working group who actually came into physical contact with the people from Kosovo Polje. However, they never gave them any orders in the sense of “you have to organize such-and-such a rally in such-and-such a place.” Yet I have no evidence that no one ever said anything like that to them, but I assume on the basis of what I saw with my own eyes and what I heard with my own ears that there were no such contacts. That connection was of a considerably different nature. All of those rallies were organized, I am thoroughly convinced, by Solevic and the others on their own initiative. When they hit on the idea of going, say, to Titov Vrbas, Novi Sad, and Crvenka, they made that decision public and listened for what would be said about it from the top level. If the latter did not react, if it was silent, that meant that they could go ahead. If someone screamed No!, then they didn’t go. It was that kind of collusion.

[DANAS] It is difficult to agree entirely that most of the ideas advocated by the members of the Kosovo Polje Committee were authentic. But, if so, who, then, among the people from Kosovo Polje was actually the “eminence grise” [brains behind] of the national movement?

[Hudelist] That eminence grise did actually exist, and perhaps one of the most interesting things in my book is the chapter devoted to Dusan Ristic, who once was assistant secretary of the provincial SUP [Secretariat for Internal Affairs], then executive secretary in the Presidium of the Kosovo LC Provincial Committee, and finally president of the Assembly of SAP [Socialist Autonomous Province] Kosovo, who in 1981 withdrew from the position of president of the Kosovo Assembly. In the autumn of 1985, Ristic began intensive collaboration with the Kosovo Polje leaders. That connection was established in a secret meeting on 9 September 1985. It was Ristic who educated and trained Solevic, Gruic, Kecman, Budimirovic, and the others in practical politics. Before that, as they themselves have said, they were political amateurs incapable of making any effective political decision, but Ristic advised them, told them where they should go, what they should do, how to behave. As far as I have been able to learn, all the petitions, all the protest demands, all the telegrams, all the letters sent from Kosovo Polje to Belgrade and other cities and institutions in Yugoslavia were either written by Dusan Ristic himself or he gave the initiative for writing such letters, or at the least he was the editor in chief of those letters. So, had it not been for Dusan



Ristic, perhaps there would not have been any national movement of Serbs and Montenegrins in Kosovo or it would not have had the dramatic line, would not have taken the course it did.

[DANAS] What was Dusan Ristic's role in writing the letter from the group of Kosovo Polje citizens to Stambolic and Milosevic?

[Hudelist] Ristic played a decisive role in the writing of that letter. That letter of a "group of citizens from Kosovo Polje" to Ivan Stambolic, president of the Republic of Serbia, and Slobodan Milosevic, chairman of the party, long before the eighth meeting, demanded precisely what it adopted. The letter casts a quite new light on that meeting and at the same time confirms the arguments of certain commentators, which in my opinion are quite correct, that even Milosevic, with a bit of oversimplification, can actually be considered a delegate of Kosovo Polje rather than Kosovo Polje, as many other people think, serving as Milosevic's transmission belt. It is evident from that letter that Milosevic was made to order and if it had not been him, then probably someone else would have taken his place. He perhaps might not have played such a role as Milosevic has, but I say that Milosevic was simply made to order. I have also read the minutes of a meeting of the Central Committee and I no longer know which local community in Kosovo Polje in which all the future Kosovo Polje leaders took part: Solevic and Bulatovic and Kecman, and the meeting was chaired by Bosko Budimirovic. And all of the arguments which became topical many years later, all the key concepts and terms, were used even at that time: differentiation and amending the Constitution and this and that. Long, that is, before this became the most ubiquitous political topic in Yugoslavia.

[DANAS] How much impact did publication of the interview with Solevic in START have on relations between them? Did that interview contribute to their split?

[Hudelist] By all appearances, I did play a rather destructive role concerning relations in the "general staff," since in a way I perhaps did not set the leaders at odds with one another, but in any case brought it about that that quarrel which existed even before we met culminated in what was practically an open split much faster as a consequence of what I wrote. Everything essentially happened last summer when I read some of Solevic's opinions, which were rather free, for example, "Serbia for a long time was a loose woman and everyone had his way with her. Then Serbia married Milosevic and it is no longer a case of: either he will find another woman or he will masturbate." His opponents in the camp, above all Kecman and then Gruic, saw in that statement the moment that he had been waiting for to discredit him. Because of views like that, Solevic was even then penalized in a way at one of their meetings. He is even said to have broken down in tears because of the criticism. Solevic's side was taken by Bosko Budimirovic, while the other side was led by Bogdan Kecman, with the help of

Zoran Gruic, so that the balance of power was two against two. Kosta Bulatovic had to decide which faction was stronger. However, he did not want to do that, since he did not want to get involved, and anyway he was a bit sick (he withdrew from the limelight because of a heart attack), so that that stalemate lasted rather a long time, and then it broke down at the point when START published that fatal chapter. Then Solevic was definitively exposed as a traitor to the nation and had to withdraw, so that the other faction was triumphant.

[DANAS] How really serious were Solevic's threats about coming to organize rallies in Zagreb and Ljubljana? Wasn't it nevertheless more a question of a tactical move, a kind of intimidation?

[Hudelist] Back last year, when the rallies were in season, it could quite well have happened, and Solevic even complained to me that that series of rallies had not begun a bit earlier than only 9 July. Since, had they begun a bit earlier, then they could have managed to go to Ljubljana and to Zagreb. However, late last year when I spoke with Solevic, and especially early this year, when that conversation of ours was published in START, such plans were already unfeasible to a great extent. It was possible in that interview in START to distinguish what was realistic, what was feasible, from what was only Solevic's self-assertion and boasting. So that I was amazed still more by the decision of the Croatian Public Prosecutor's Office to ban that article, that it was simply unable to distinguish those two things, while the public in Croatia did it rather easily. That court decision, then, cannot be seen otherwise than hasty and indeed even politically dumb. Solevic later acknowledged to me that by contrast with last year, this year he had no ambitions whatsoever, no desire whatsoever, to organize a rally in Ljubljana, but had simply put out that misinformation. To paraphrase him loosely: So that the Slovenes would be involved in banning that rally and thus would not have time to interfere in our internal affairs, specifically amendment of the Serbian Constitution.

[DANAS] Kosovo Polje is the point of origin of the so-called Serbian national movement, which greatly supported the national renewal, which in turn supported the constitutional amendments in Serbia, and they culminated in the state of emergency in Kosovo. Is there any connection whatsoever between Kosovo Polje, as the initiator of the Serbian national movement, and the state of emergency that exists today in Kosovo?

[Hudelist] The national movement of Serbs and Montenegrins experienced its culmination with the so-called solidarity rallies last year, and by their very nature they marked an extraordinary situation that directly threatened and aroused the other side. Counterblows were returned late last year from the other side of the ethnic barricade, so that all that was left was for the state itself to legitimize the state of emergency that existed.

[DANAS] If after the state of emergency and "beheading of the irredenta" the situation in Kosovo does not improve in the foreseeable future, it will be necessary to look for new culprits....

[Hudelist] As I see it, and the title of the book, "Kosovo—bitka bez iluzija," states it, I have no illusions at all that the situation in Kosovo will be resolved quickly. I would quote a Belgrade colleague of mine who said that the prospects that the Kosovo drama would finally be resolved are about as likely as getting the toothpaste back into the tube. After several visits to Kosovo, I became convinced that the hatred between the Albanians and the Slavs has reached such a point that you really have to be naive to believe that that hatred can be overcome even over a lengthy period of time, not to mention a short period.

[DANAS] Many people who have not been to Kosovo are interested in how a "foreigner" feels between those two hatreds.

[Hudelist] Perhaps not immediately after I began to report from Kosovo for my paper (that was in October 1987), but as time passed I sketched for myself certain criteria which I had to strictly adhere to if I was to be able to contact both sides, that is, if the writing of this book was to be possible at all.

[DANAS] What are those criteria?

[Hudelist] First, emancipate myself from all ideological criteria and arbitration between the two sides to the conflict. I had to commit myself, one might say, to the positivist method, to the search for the facts, and to the kind of analysis which allowed everything except ideological positions. I contacted Albanians until last summer, at which point, when the solidarity rallies began, I began to gradually establish increasingly intensive contacts with members of the committee in Kosovo Polje. In time, I became a person who was welcome in the home, who sat down to meals with them, who traveled from town to town for the rallies with them.... For a time, Solevic was even in a way my chauffeur on a private matter, so that the boundary between the private and the public began to be erased.

[DANAS] Isn't that an abandonment of ideological neutrality?

[Hudelist] At one point, my relations with the leaders became a game, I would call it a dangerous game, since my method was not harmless either. Whenever you establish contacts with someone so that the private and the public begin to coincide with one another, become mixed with one another, then you enter unknown territory, and there is a possibility of losing neutrality. Nevertheless, I think I avoided that trap.

[DANAS] How did mutual trust get established at all?

[Hudelist] When I came to Kosovo Polje last August, I called Solevic and told him I wanted to spend some time with him and his collaborators. He reacted very cordially. However, he did not establish close relations with me immediately, but only when he saw that his closest collaborators, Kosta Bulatovic and Zoran Gruic, also accepted me. He took me to them and left me there, and then he later came back, and when he saw that the two of them had not excluded me, then I became "their man." This was a kind of test, although Solevic, when I asked him, said that that was not the case. I do not know whether it was or not; however, I did in any case pass several of their internal tests. I obviously did not fail any of them, when I was able to stay with them so long.

[DANAS] You speak of Drago Samardzic with particular respect. Who is he?

[Hudelist] Drago Samardzic is a young businessman from Pristina, manager of the computer center of the Kosovo Electric Power Industry, a very interesting man, highly educated, highly intelligent, I would even say a man of European orientation. Samardzic has traveled through almost all the countries of Europe, he lived in a hippy commune in Holland, but circumstances brought it about that he has devoted himself to organizing solidarity rallies (largely because many of his closest relatives, including his parents, have in one way or another suffered at the hands of certain Albanian chauvinists). Samardzic was the first to hit upon the idea of organizing the first rally in Novi Sad. Drago and I talked little about the rallies. We talked about everyday things, about art and sports; whereas with Solevic, say, I hardly ever uttered a single word which was apart from politics and the rallies.

[DANAS] Anyone who has been to Kosovo knows that the degree of acceptance or rejection on the sides of the ethnic barricade depends on the community one comes from....

[Hudelist] Those are two completely different sides. As far as the Albanians were concerned, I could approach any of them by the very fact that I was a newspaperman from Zagreb. The problems arose a bit later, that is, when I became so bold as to write about certain segments of the reality there in a manner that is not customary by their lights, such as writing, for example, from the BOOM Festival of Kosovo groups. Analyzing the lyrics of rock music songwriters in Kosovo and talking to them, I showed how backward the cultural scene is in Kosovo, how primitive, and, although it ought to be internationalist in its commitment by its very nature, how burdened it actually is with the ethnic aspect. Many Albanians did not take that article kindly, nor that method of portraying and analyzing their reality, and the reception was particularly bad for my interview with Skhelzen Maliqi, who revealed very radically the so-called pseudointellectual scene of Albanians in Kosovo, which by most was interpreted as a kind of betrayal of the "national cause." If the Albanians looked upon me as their man back during 1979, then they had grave doubts in 1988,

although I was only portraying things as they were, and they were simultaneously filled with the good and the bad. My intention was to show how the conflict in Kosovo was not just between two nationalities and ethnic sides, but also, in each of those communities, that is, even among the Albanians, there were progressive and retrogressive forces, and that resolution of the conflict was a precondition for resolving the other (ethnic) conflict that is a burden on Kosovo's reality today.

[DANAS] How in the context of Kosovo absurdities is one to interpret the fact that Maliqi, for example, was just a year or 2 ago proclaimed all but a national traitor and today we read that he is in fear of "isolation"?

[Hudelist] Maliqi has been proclaimed both a Serbian and Albanian nationalist several times depending on how much somebody did or did not like him or some article of his or some public statement he made. He is an uncommonly brave man, an intellectual without any prejudices whatsoever, who is far above the intellectual average of the Kosovo public scene, and as such he does not fit as well as he might into any camp, which is why he often has trouble from both sides. The reason why his fate frequently hangs by a thread does not lie as much in him himself as in the circumstances which obviously threaten him from both poles. They are thus dictating his destiny along with all the others.

[DANAS] Today, after the state of emergency has been instituted, how do the Kosovo Polje leaders look on Kosovo politics? In what way are they taking part in it?

[Hudelist] They sent a letter to Ivo Druzic at about the time when the article came out in START in which they asked Druzic to receive them, but not as rally organizers, but as a delegation from Kosovo Polje and from Pristina that would explain to Druzic, and through him to the Croatian public, what the situation was in Kosovo at the moment and what should be done to better inform the public in Croatia about this than it is now, in their opinion. As far as I can see, Druzic has not given them an affirmative answer. An ambivalent disposition prevails among the leaders of the so-called national movement: on the one hand they know that their actions, their activities, and their endeavors have in a way ended happily in that the main objective has been achieved—the constitutional amendments have been adopted in Serbia, while on the other hand, these circumstances of the state of emergency are affecting them as well. The armed attacks of Albanians were a particularly unpleasant surprise for them, if one can judge the mood of Serbs in Kosovo Polje via Drago Samardzic, I think that it is not on such a high level, since life continues to be hard. So, that was a paper victory.

[DANAS] And what does Solevic say, how does he feel as an emigre?

[Hudelist] He is said to be doing well in Nis. He appointed his son Karadjordje commander of the rear and announced his arrival in Zagreb, but not as a rally organizer, but as a mountain climber for some celebration of the Zeljeznicar Mountain Climbing Society, which probably has fraternal relations with the one in Nis. Thus, sometime in June Solevic will come to Zagreb after all.

## GERMAN DEMOCRATIC REPUBLIC

### Emphasis Placed on Combat Training

23000181 East Berlin VOLKSARMEE in German  
No 21, May 89 p 3

[Article by H.H.: "Military Mastery Is Demanded—We Are Fulfilling Our Class Mission Through High Performances in Combat Training"]

[Text] There is no doubt that we are living in turbulent times. It was only a few months ago that the socialist nations announced unilateral disarmament measures. Since then, they have begun to convert this resolve into deeds. At the end of April, the world public was able to witness the disbanding of a battalion of the "Artur Becker" Tank Regiment. The same event occurred in five other tank regiments of the National People's Army. In mid-May, units of the 25th and 32d Tank Divisions of the Soviet Army left their garrisons in the GDR. This was an expression of the seriousness of the will for peace on the part of the socialist states which not only talk of disarmament, but are doing something about it.

Understandably, this consistent peaceful course is finding broad agreement among the populace and in the armed forces of our country. Nevertheless, some concerns voiced by some comrades are not to be disregarded: Are we in a position, under these conditions, to continue to do what is necessary for the defense of our fatherland? After all, the National People's Army is confronted by the task, which is certainly not an easy one on the way toward the 12th Party Congress of the SED [Socialist Unity Party of Germany (GDR)], of converting the class mission assigned to us into fact, well-armed in the political-ideological, military-theoretical, and practical arena and with clear concepts regarding the present and the future of our armed forces, in terms of readiness and capability. This was emphasized on 21 April 1989 at the military scientific conference on the occasion of the 40th anniversary of the GDR by our minister, Army General Heinz Kessler.

### Combat Strength and Combat Readiness Are Required Now as Before

We are absolutely in the position of fulfilling this task under the new conditions provided, yes, provided that we master the resulting high requirements in terms of combat training with the best possible results. We proceed on the basis of the fact that the socialist armed forces, their appropriate readiness and capability to defend, will remain an unrenounceable factor in the maintenance of peace for a long time to come. In fulfillment of the peace policy mission of the National People's Army and the Border Guards of the GDR alongside the Soviet Army and the other fraternal armies, the requirements for the mastery of military science are, consequently, not diminishing. A high degree of combat strength and combat readiness continue to be required now as before and must find corroboration in new quality standards. The most

important task of the socialist military coalition today is the maintenance of peace; they must prevent the weapons from speaking. Their defensive capabilities must be so structured that all illusionary notions on the part of NATO forces regarding ways to achieve military victory over socialism are brought to collapse in sufficient time, that is to say, before the beginning of an assault. This includes not only maximum vigilance, but a high training status for leaders and troops, as well as their capability to react flexibly to demonstrations, provocations, and local conflicts, to inflict a destructive defeat upon every aggressor.

### Combat Training Remains the Principal Field in the Struggle for Military Mastery

For combat training, it follows from this that it remains unchanged as the principal focus in the struggle to achieve military mastery, in unity with political education. It is not seldom, however, that particularly young members of the Army find it somewhat difficult to solve this apparent contradiction for themselves, a contradiction which consists in the requirement that, during their military service, they master the military trade, however, with the goal of never having to apply it in a war. Thus far, they have learned intensively in school and in their professions in the certainty that they will be able to apply what they have learned. It is certainly not very simple to understand that our combat strength and combat readiness are unavoidable precisely in order to prevent the weapons from speaking. The fact that the most effective personal contribution toward the maintenance of peace consists precisely in proving that an aggressor has no chance. Mastery of the military trade for the sake of peace—that is what concerns the soldiers of socialism. The reduction of the National People's Army and the further expansion of its defensive character results in new requirements for leadership activity, for education and training, discipline and order, for combat strength and combat readiness. The armed forces do not lose anything with respect to their significance as a result of these disarmament steps. That is why quantitative limitations must be connected with higher qualitative performance. The necessary degree of military security must be facilitated with fewer forces and means. That which remains in terms of armament must be mastered with primacy. That which is to be newly introduced within the framework of ongoing structural and weapons-technical changes in the interest of further shaping the defensive character is to be mastered rapidly so that the tactical and technical parameters can be fully exploited. This means learning, learning, and more learning for each individual. And this learning takes place primarily in the area of combat training.

Combat training is the most important component in the preparation of formations, troop components, and units to fulfill their tasks in peacetime and to fend off an aggression. The goal of combat training is the capability to assume higher levels of combat readiness in the specified time and to reliably fulfill the tasks which are ordered or which evolve from the situation. The measure

of our defense efforts is determined by the degree of the potential threat. And this still-present high military threat potential on the part of imperialism requires us to acquire all capabilities for a persistent and active defense.

Persistence is the most important requirement for defense. The possible aggressor must know: The soldiers of the GDR are willing to defend every foot of their socialist fatherland. And they are trained in such a way that they will do everything to fend off any assault on the part of enemy forces, to hold their positions, and not to permit a breakthrough through their defenses alongside their brethren in arms.

#### **Knowing Why Results in Additional Strength**

It is primarily a series of advantages accruing to defense, which are to be applied in a clever manner, that strengthen us in our certainty that we will successfully prevail in a defensive engagement.

However, the most important thing is [the fact that] that which we are protecting we helped create. In this territory, our relatives and friends reside—they trust in our military abilities. We love this land and its people and they are dear to us. This lends us mighty additional strength. Strength and forces which will be needed in order to acquire that degree of military mastery which is necessary for the reliable defense of our socialist fatherland in the shortest possible time with respect to combat training. These strengths give rise, not in last place, to our confidence that we shall be able to preserve peace in the future as well.

#### **Worker Militia Artillery Training Highlighted** *23000177 East Berlin DER KAEMPFER in German* *No 5, May 89 p 6*

[Article by People's Police Lt Col Behr: "So That Each Round Becomes a Hit—Experiences Gathered During Artillery Fire Training"]

[Text] An artillery unit is required to execute every fire mission, regardless of conditions, in the briefest possible time and using the least amount of ammunition. This presupposes that the platoon leaders, mortar crew chiefs, gun commanders, and team leaders, who can be utilized as firing personnel, must acquire the necessary skills and capabilities in artillery firing training, that they develop decisiveness and initiative and creatively apply the firing regulations.

The basis for this activity is formed by the artillery firing regulations. The educational potential contained in these regulations can only become effective if all superior officers take steps to counter every formal or one-sided explanation of the content of these regulations, to counter every simplification. However, this presupposes an accurate knowledge of the contents of official regulations and directives.

#### **The Tactical Situation Creates the Prerequisites**

Some thoughts on the application of the gunnery manual. The regulations require the shooter to generally adopt a complete decision prior to executing a firing mission, since the firing mission must always fit into the tactical situation.

Naturally, this cannot be required only at the time of combat test firing. Every training situation should always be based on a specific tactical situation. It is an old truism that all participants will execute any activity with far more initiative and action readiness if they have comprehended its meaning and necessity.

An example should document this. If the observation and reconnaissance instruments at the observation post extend too far above the cover or if individual members of the crew do not move under cover, they must have it convincingly explained to them that even these few clues are sufficient for the enemy to unmask the observation post or firing position, to determine its coordinates, and to destroy it. The training officer must make the trainees aware of the fact that errors or negligence on the part of individuals bring the fulfillment of missions into question. In other words, one should never neglect concealment.

The formulation of a decision should compel the shooter:

- to select the most dangerous target from among identified targets; select the one target which can endanger the success of the tactical actions of his own unit to the maximum;
- to determine independently the means and manner by which the firing mission is to be implemented.

Some advice regarding the work of the members of the command staff. There is no question that the observers, surveyors, and target coordinate computers must be properly utilized. However, resolute steps must be taken against assigning the shooter a passive role in this situation. In that case, the shooter will not even observe and evaluate the impact of the rounds fired, but will conduct the firing mission in a formal manner in accordance with the reported deviations. This is not in line with the determinations contained in the gunnery manual.

Despite the improved level of artillery training, some training officers continue to have difficulties regarding the rapid and correct determination of range corrections and azimuth corrections or in assessing the firing missions. Here, a number of technical aids can be applied to make the work easier.

Some thoughts on the work of radio operators in artillery firing training. The principles for the commitment of artillery, the high degree of mobility, the rapid establishment of firing readiness, and the system of fire control place high requirements upon radio operators. Every commander or shooter should be aware that he can fulfill



his fire missions only if his communications forces master the notation of abbreviations used by the artillery, and if they master the receiving, notation, and transmission of all fire commands.

The following are some key points which are to be emphasized:

- Stable communications must be constantly facilitated between the observation post and the firing position.
- All commands and reports are to be entered in a neat handwriting in the journal, using the prescribed acronyms.
- Plotting is to be accomplished only in pencil.

—Attention must be paid to the proper appellation and notations for values (for example, null, null, four = 0.04).

—Commands are to be repeated in a loud and clear voice.

#### **Thorough Analysis Assures Success**

Commanders are particularly well advised to exert their influence upon the careful preparation of action training, on the basis of thorough analyses of results pertaining to previous training years, and particularly of combat firing exercises, with the utmost of concentration so that each hour is efficiently utilized and culminates in the best possible results.

## INTRABLOC

### **TESOS—Joint Bulgarian-Czechoslovak Engineering Firm**

22000072 Sofia RABOTNICHESKO DELO in Bulgarian 6 Jun 89 p 5

[Report by Todor Koruev, RABOTNICHESKO DELO correspondent: "Efficient Way of Cooperation"]

[Text]

#### **Bulgarian-Czechoslovak Stockholding Company**

Prague, 5 June

Today Georgi Atanasov, BCP Central Committee Politburo member and chairman of the Council of Ministers, leaves on a friendly business trip to Czechoslovakia. The discussions which he intends to hold with his Czechoslovak colleague Ladislav Adamec will deal mainly with problems of reciprocal cooperation in the economic, scientific and technical, and other areas of life.

Although relations and cooperation between the two fraternal countries have marked steady advance, the dynamics of the processes of renovation in the course of their development, and the growing needs for maintaining a faster pace in contemporary forms of integration such as, for example, joint enterprises and direct relations, require further more intensive joint steps in that direction.

The Prague meeting between the heads of the Bulgarian and Czechoslovak governments will concretize the possibilities, ways, and means of the accelerated rhythm of Bulgarian-Czechoslovak reciprocal relations and cooperation in the interest of the interaction and progress of the entire socialist community.

TESOS (Technical Software Systems), the first joint Bulgarian-Czechoslovak stockholding enterprise, was founded today in Prague. What is encouraging is that the new organization will be promoting strategic developments. Its object of activities will be the development and application of software products and systems, complementing, engineering and services in Bulgaria and Czechoslovakia and in other countries.

This is no accident. Bulgarian microprocessor equipment has earned a good reputation in Czechoslovakia. Personal computers and office equipment led the way. In 1987 the first microprocessor systems were imported into Czechoslovakia. One month ago we witnessed the great interest shown in the exhibit sponsored by the Bulgarian Microprocessor Systems State Company in Prague, at the Forum Hotel. All of this provided good prerequisites for increasing integration through progressive forms, such as joint enterprises.

The members of the TESOS Stockholding Company, which will be located in Bratislava, will be three Czechoslovak and two Bulgarian economic organizations: the Datasistem State Enterprises in Bratislava and

Orgaproekt in Prague, and the Svetom Production Cooperative in Velke Rovne Village, for Czechoslovakia, and the National Programming and Design Foundation Labor Cooperative and the Sets and Programming-Technical Services Labor Cooperative. Both organizations are part of the government's Microprocessor Systems Company in Pravets. The company is capitalized at 1 million leva, with each country holding 50 percent of the stock. Payments will be made in the national currency. This was made possible thanks to the agreement which was signed last year between the Bulgarian and Czechoslovak governments on the use of national currencies in payments, within the framework of direct relations and in the creation and operation of mixed Bulgarian-Czech associations, enterprises, and organizations. So far such agreements have been concluded between Bulgaria and the USSR, Bulgaria and Czechoslovakia, and Bulgaria, Czechoslovakia and the USSR.

Following the general stockholders meeting which was held this morning, and the meeting of the administrative council, which took place at the Bulgarian embassy in Prague, the protocol on establishing the joint enterprise was officially signed. The ceremony was attended by Stoyan Ovcharov, BCP Central Committee Politburo candidate member and minister of economics and planning, and Pavol Hrivnak, Czechoslovak first deputy premier and chairman of the State Committee for Scientific and Technical and Investment Development.

After the signing of the protocol I asked Rudolf Kapral, from Datasistem in Bratislava, general director of the newly established TESOS Stockholding Company, and Mikhail Popov, general director of the National Software And Design Foundation Labor Cooperative for their brief comments.

Rudolf Kapral: "The purpose of this first joint stockholding company is to provide comprehensive high quality services in the field of software products. It will use the best developments of Czechoslovak and Bulgarian experience and will offer its wares to other countries."

Mikhail Popov: "We would like to achieve even better interaction between Bulgaria and Czechoslovakia in the area of the information industry and make use of positive developments in either country and contribute to the accelerated application of automation in the national economy."

Problems related to the further efforts to coordinate the national economic plans for 1991-95 and for improving interaction in that area between the economic organizations outside the two countries were discussed at a work meeting which was held today in Prague between Bohumil Urban, Czechoslovak first deputy premier and chairman of the State Planning Commission, and Stoyan Ovcharov. (BTA)

## BULGARIA

### Banking Regulations Published

22000071 Sofia DURZHAVEN VESTNIK in Bulgarian  
2 Jun 89 pp 2-8

["Text" of Council of Ministers Resolution No 19, dated 19 May 1989, on the Adoption of a Regulation on Banks]

[Text] Council of Ministers resolution:

Article 1. A Regulation on Banks is hereby adopted

Concluding Stipulations

Only paragraph. Revokes:

1. Resolution No 55 of the Council of Ministers of 1980 and its regulations on specific rules governing the administration of the Bulgarian National Bank and the Bulgarian Savings Bank (published in DV, No 90, 1980; amended, No 33, 1983).

2. Resolution No 33 of the Council of Ministers of 1987 and its Regulation on Banks (published in DV, No 46, 1987; amended and supplemented, No 68, 1988).

Chairman of the Council of Ministers: Georgi Atanasov  
Secretary general of the Council of Ministers: Ivan Shpatov

### Regulation on Banks

#### Chapter 1

#### Basic Stipulations

Article 1.1 The present regulation concerns the management of banking activities, the rights and obligations of banks, and relations among them as well as between them and companies and other juridical and physical persons.

1.2 The main tasks of the banks are to contribute to upgrading the efficiency of the economy, the progressive restructuring and technological updating of the production process and implementing the state strategy of qualitatively new growth of the economy through their overall activities and the use of economic instruments.

Article 2. The banks are:

1. The Bulgarian National Bank (BNB), which is the central bank of the socialist state;
2. The commercial banks (TB);
3. The State Savings Bank (DSK).

Article 3. Branches and agencies of foreign banks in the country, as well as banks in the country with the participation of foreign companies and individuals may be set up in accordance with the stipulations of Chapter 5 of

Ukase No 56 on Economic Activities (USD) (published in DV, No 4, 1969; amended, No 16, 1989; amended and supplemented, Nos 38 and 39, 1989) after the BNB has made a decision.

#### Chapter 2: Bulgarian National Bank

#### Section I: Bank Activities

Article 4.1 The Bulgarian National Bank participates in the formulation and implementation of state policy in banking activities in leva and foreign currency, with a view to protecting, regulating, and stabilizing the leva, which is the national monetary unit.

#### 4.2 The Bulgarian National Bank:

1. Puts cash in circulation and regulates monetary turnover;
2. Regulates the activities of other banks in the country and controls the observance of stipulated regulations and requirements governing banking activities;
3. Drafts the state credit and cash plans of the country, participates in the formulation of the consolidated financial plan, the balance of population monetary income and expenditures, the foreign exchange plan, and the balance of payments;
4. Formulates and submits for approval by the Council of Ministers the principles governing interest policy, the minimal and maximal basic interest rates, and other interest levels;
5. Keeps the minimal reserves and necessary funds for payments made by other banks and organizes the settlement of accounts among them;
6. Organizes and provides current banking services to organizations in the nonproduction area and the cash execution of the budget;
7. Keeps the available funds of the budget and the insurance agencies;
8. Coordinates bank foreign economic relations; sets the rates of exchange between the leva and foreign currencies; coordinates the management of national foreign exchange reserves; handles foreign exchange and precious metals;
9. Can create and participate with its own funds in banks and companies in the country and abroad;
10. Encourages the use of progressive methods and technical facilities in banking.

4.3 The Bulgarian National Bank, alone or with other competent authorities, analyzes data on the development of the economy, the impact of banking activities, and results of the implementation of the plans and summed development trends.

4.4 The Bulgarian National Bank functions on a cost accounting basis in accordance with the procedure stipulated in the regulation of the minister of economics and planning and the BNB chairman.

Article 5.1 The Bulgarian National Bank implements regulatory and control functions pertaining to other banks through the use of economic instruments as stipulated in the present regulation, on the basis of resolutions adopted by the administrative council or its chairman, in accordance with their areas of competence.

5.2 On the basis of the state credit plan, the foreign currency plan, and the balance of population monetary income and expenditures, the Bulgarian National Bank may establish on an annual basis and for each bank, after a discussion with it:

1. The percentage of the greatest admissible increase or necessary minimal reduction in the overall indebtedness in leva of companies and other organizations, owed to the respective bank;

2. The percentage of the highest admissible increase or necessary lowest possible reduction of the net debt in socialist and nonsocialist currency, resulting from the activities of the respective bank;

3. The highest admissible increase or the necessary lowest reduction of the mass of cash in the country, circulated via the respective bank.

Article 6.1 The Bulgarian National Bank regulates the credit resources of the other banks by:

1. Providing, on a contractual basis, additional resources in the guise of short-term deposits and medium-term loans;

2. Submits proposals to the Council of Ministers on defining and amending the minimal and maximal amounts of the prime interest rate;

3. Determines the percentage of mandatory minimal interest-free reserves of other banks for funds deposited in such banks.

6.2 The Bulgarian National Bank determines:

1. The lowest admissible percentage of its own funds which a bank must hold in reserve to cover investments;

2. The lowest admissible correlation between the resources of other banks and their risk balance assets and other nonbalance commitments;

3. The lowest admissible correlation of liquidity of other banks;

4. The highest admissible percentage of the sum of all credits granted to a given company in terms of its own resources;

5. The lowest admissible percentage of special reserves in domestic and foreign currency to cover loans which are difficult to collect or uncollectible, in terms of the sum total of such loans which are subtracted from the bank profits before taxes. The criteria of loans difficult to collect or uncollectible must be set by the BNB administrative council.

6.3 If specific regulations and requirements governing bank activities are violated, the BNB and the respective bank will stipulate deadlines and other conditions for making such activities consistent with regulations and requirements.

Article 7. The BNB administrative council may submit for approval by the Council of Ministers other economic standards and requirements.

Article 8.1 The BNB controls the observance of standards and requirements governing banking activities through periodical accountability, statistical, and other data submitted by the other banks.

8.2 If necessary, the BNB may conduct investigations and audits of bank activities. If substantial deviations from the standards and requirements formulated in this regulation are detected, the BNB will impose economic and other penalties on the respective bank and may issue mandatory instructions on their correction.

8.3 In the case of systematic violations of stipulated standards and requirements, the BNB may submit a proposal to the okrug court with which the bank is registered asking for a change in administrative and supervisory authorities or a termination of activities as per Article 50 of the Regulation on the Application of Ukase No 56 on Economic Activities (PPUSD) (DV, No 15, 1989).

Article 9. Every year, before 30 March, the commercial banks and the DSK will make public information as per Article 41 of the USD, confirmed by an authorized bank-auditing company or by at least two authorized bank auditors. The authorization of bank auditing companies or bank auditors will be provided by the BNB administrative council.

Article 10. The Bulgarian National Bank:

1. Guides methodical banking accountability, cash activities in leva and foreign currency, bank control of the Wage Fund, the cybernetic development of banking activities in the country, and the organization of security in the banking system;

2. Submits for the approval by competent authorities the basic regulatory acts dealing with banking activities;

3. Organizes cooperation with international banks of CEMA members, the central banks of the socialist and other countries, other international banks, and financial and insurance companies.

Article 11. Each bank will provide cybernetic facilities for its activities and will organize and be responsible for the observance of its rules and security regulations.

Article 12. The Bulgarian National Bank may assign to other banks, with their agreement, the management of some of its activities except for those which are legally its exclusive responsibility. This does not limit the bank's responsibilities for such activities.

Article 13. The BNB branches may carry out, if authorized, activities normally performed by other banks, on commission.

## Section II: Administration and Structure

Article 14. The Bulgarian National Bank is an authority with functional competence, under the direct jurisdiction of the Council of Ministers.

Article 15.1 The Bulgarian National Bank is administered by an administrative council (US) and a chairman.

15.2 The members of the administrative council must be approved by the chairman of the Council of Ministers on the suggestion of the chairman of the BNB. The chairman of the BNB is ex officio also chairman of the US; the deputy chairmen of the BNB are members of the US.

15.3 Managers of other banks and companies, or representatives of state and public agencies and organizations may be asked to participate in the work of the BNB administrative council. The chairman of the Council of Chairmen of Commercial Banks will be invited to attend all sessions.

Article 16. The BNB administrative council:

1. Organizes the execution of state policy in banking;
2. Discusses and makes decisions on the following:
  - a. Basic problems related to the implementation of state policy in banking;
  - b. The drafts of the credit plan and the cash plan of the country and other basic bank planning documents;
  - c. Reports, accounts, and analyses on the implementation of bank assignments and objectives of state policy in this area, as well as the results of the activities of individuals banks;
  - d. Draft laws on banking activities;
3. Defines the legal standards and requirements governing banking activities and the prime interest rate on loans and deposits;
4. Makes decisions on opening and closing BNB branches.

Article 17.1 The administrative council may be summoned to convene by its chairman or by request of no less than two of its members.

17.2 The meeting of the US is valid if attended by more than one-half of its members.

17.3 The US will pass decisions by simple majority of the members present. The decisions will be entered in a protocol.

17.4 In the case of disagreements between the chairman and the US, the chairman will report the matter to the Council of Ministers and, until its resolution, will act as he deems fit. In such cases the members of the US can present their views in writing.

Article 18.1 The chairman of the BNB will: organize, manage, and control the activities of the bank; represent the BNB in the country and abroad; define the tasks of the deputy chairmen and the other officials.

18.2 The chairman of the BNB may delegate the exercise of some of his rights to other bank officials unless they are part of his exclusive competence.

Article 19.1 The activities of the BNB are carried out by its central administration (TsU) and the banks which are branches set up by the US of the BNB.

19.2 The BNB bank branch is headed by a general director (a director) appointed by the BNB chairman.

## Chapter 3: Commercial Banks

### Section I: General Stipulations

Article 20.1 The commercial bank is a stockholding society consisting of two or more companies which may be juridical persons, banks or other organizations.

20.2 The statutory capital of the TB cannot be less than 7 million leva; no less than one-half of this capital must be paid up prior to the registration of the TB.

Article 21. The establishment of the TB must be approved by the administrative council of the BNB on the basis of constituent acts. A refusal by the US may be appealed to the Supreme Court.

Article 22. Unless otherwise stipulated in this regulation, the stipulations governing the USD and PPUSD concerning stockholding companies will apply to the TB.

### Section II: Activities of Commercial Banks

Article 23.1 Commercial banks will work on implementing the tasks related to banking activities and have the following rights:

1. To grant short-term, medium-term, and long-term loans in leva and in foreign currency to any company or juridical person;
2. To participate with their own funds in companies;
3. To accept deposits on demand, term deposits, and deposits in leva and foreign exchange made by local or foreign physical and juridical persons;



4. To provide other banking services.

23.2 Banks may make loans to each other under stipulated interest and other conditions.

Article 24. Commercial banks must encourage the joint contribution and utilization of monetary resources of banks and companies by the following means:

1. Bank share participation in companies;
2. Participation of companies with their own funds as stockholders in TB.

Article 25. The commercial banks carry out their activities on a cost accounting basis. They distribute their profits in accordance with the rules formulated by the minister of economics and planning and the BNB chairman.

Article 26.1 The commercial banks bear respective responsibility, together with the companies, for the achieved economic results in the course of the crediting process and the joint use of monetary resources by:

1. Bearing the consequences of failure to earn a profit from invested bank funds in a company;
2. Covering at their own expense that part of the loans which, due to lack of assets of a liquidated company, cannot be repaid;
3. Losing a corresponding part of their share if a company in which they have invested must be liquidated for reasons of insolvency.

26.2 The banks must mandatorily set aside funds from their revenue for the Reserve Fund to cover difficult to collect or uncollectible loans.

26.3 Should the bank conclude its annual activities at a loss which cannot be covered from the Reserve Fund or the other funds set aside for the purpose, and should a danger to harming its creditors exist, the BNB may suggest to the okrug court to put the bank in a state of liquidation.

26.4 The salaries of the leading cadres and specialists in the TB will be based on the level and improvement of the profitability in bank activities, in accordance with internal regulations adopted by their administrative councils as stipulated in the regulatory acts.

Article 27.1 By making loans and with other specific instruments the commercial banks will help the companies formulate plans aimed at upgrading their efficiency and will help in their implementation.

27.2 The commercial banks will formulate their own credit plan on the basis of a discussion with the BNB and among each other, in accordance with the stipulated standards and requirements, as well as a discussion with the companies credited by the bank.

Article 28.1 The commercial banks will grant loans in national and foreign currency for activities, measures, and projects which will be considered efficient and will ensure the necessary income in local and, respectively, foreign exchange and the prompt repayment of the loans and their interest charges.

28.2 Short-term loans may be granted for a term of no more than 1 year; medium-term, from 1 to 5 years; and long-term, from 5 to 10 years.

28.3 Instructions issued by state or other authorities and organizations on granting loans by commercial banks shall be considered invalid.

Article 29. Before granting a loan, the bank must ascertain the solvency of the borrower.

Article 30.1 The commercial banks will supervise the efficient use of the funds they have loaned.

30.2 For control purposes the TB will demand of the companies the pertinent accountability and other data; they will audit the companies, and organize the gathering of their own information and information provided by other commercial banks and the BNB.

Article 31. In carrying out their activities, the TB will be assisted by and conduct a dialogue with competent authorities in the country.

Article 32. Relations between the TB and the companies and between them and the BNB in terms of credit and deposits will be settled on the basis of contracts.

Article 33.1 Commercial banks and companies may participate, in accordance with regulations, also as constituent members or initiators, in consortiums with the participation of local and foreign banks and companies with a view to the comprehensive and efficient updating of individual activities and sectors in the national economy on the basis of the creation of new long-term export resources.

33.2 In accordance with the stipulations of the preceding paragraph, the contracts on consortiums mandatorily must ensure the full connection between expenditures in leva and foreign exchange for investments and revenue in leva and foreign exchange from repayment of the loans and interest charges.

Article 34.1 The rate of interest on loans and deposits in national currency will be agreed upon between companies and banks in accordance with the regulation on interests, issued by the minister of economics and planning and the BNB chairman.

34.2 The TB will apply incentive interest rates on loans for efficient undertakings related to technological updating and application of efficient scientific and technical achievements.

34.3 If by decision of the Council of Ministers interest rates lower than those stipulated are granted the difference will be covered by the state budget.

Article 35. Commercial banks may simplify stipulated procedures and requirements in granting loans. If the national interests (material, financial, etc.) are affected, the agreement of the respective competent authorities will be sought.

Article 36. In order to assist in the objective evaluation of suggestions on crediting capital investments, the TB may appoint, in accordance with established procedure, experts and expert technical and economic councils and organize other necessary expert evaluations in the country or abroad.

Article 37. Interest on loans not pertaining to the cases stipulated in Article 90, paragraph 2, of the USD, will be paid out of the profits earned by the companies after taxes.

Article 38.1 Bank loans in foreign exchange and interest will be repaid from earned foreign exchange by the credited enterprise, should it operate on the basis of an independent balance sheet and have a foreign exchange account.

38.2 If the credited project does not have a separate balance sheet and foreign exchange account, the foreign exchange loan and interest on that loan will be repaid as follows:

1. From the current foreign exchange income of the company over and above the income agreed upon with the Bulgarian Foreign Trade Bank (BVB) in foreign exchange for the specific periods during the year, ensuring payments to the state if the company must make payments in nonsocialist currency to meet general state requirements;

2. If the credited company does not have a state order as per the procedure of item 1, repayment will be out of its own foreign exchange funds after deduction of the currency on the basis of a specific rate for general state needs if such a rate has been set.

38.3 Foreign exchange loans may be repaid also out of the unused foreign exchange, as a result of reductions in imports, based on written confirmation by the organization with whose foreign exchange said imports are being replaced, to the effect that until the loan and the interest have not been repaid it will continue, within the framework of its foreign exchange self-support program, to rely on and transfer the currency for making the proper repayment of the loan and the interest.

38.4 In the case of devaluation or revaluation of currencies, loans and sources for repayment shall be recomputed; the differences in exchange rates will be borne by the borrowers unless otherwise stipulated.

Article 39. If the borrower and the cosigners fail to repay the loan and interest promptly, the banks will attach their funds in national or foreign exchange in the respective accounts of the company, including in other TB, and such funds are used to repay the loan.

Article 40. Commercial banks may be created in accordance with the procedure stipulated for cost accounting:

1. A special fund in leva for interrelated deals (equalization fund) used to cover eventual differences in leva, when part of the related operations generate additional foreign exchange but have insufficient leva efficiency and if the combination of several deals would ensure the total self-financing in foreign exchange or leva for the interrelated deals;

2. The Financing of New Developments Fund, which will be used for a participation in companies with limited liability in financing projects involving risk capital.

Article 41. On the basis of contracts concluded with companies or organizations, the commercial banks may undertake, against payment, to provide services related to monitoring the expedient use of stipulated investment funds, to supervising the observance and implementation of specific financial agreements, organizing sales, and the redemption of bonds and payment of bond interests.

Article 42. The commercial banks will organize economic, market, currency-financial, and other studies both in the country and abroad and, on this basis, against payment, may offer consultation services to companies concerning credit and market circumstances, economic conditions, and the scientific and technical possibilities and strategy of the partners of our companies.

Article 43. The commercial banks may form associations with foreign juridical and physical persons, observing the stipulated procedure for engaging in joint activities in the country and abroad, including the organization of jointly owned banks.

Article 44. On the basis of specific conclusions on the greater effectiveness of respective deals, the commercial banks may grant loans to companies in our country offering leasing services with a view to the purchasing of machines and other equipment which they will then lease to companies.

Article 45. Commercial banks may issue guarantees on company payments against proper collateral.

Article 46.1 In order to secure the loans, according to their own evaluation the commercial banks may also accept as collateral from companies commodity-material values, foreign currency, commodity-payment documents, securities, and other regular payment instruments in local and foreign currency and other collateral guarantees.

46.2 The collateral consisting of commodity-material values may be held by the owner-company under special conditions agreed upon with the bank.

46.3 The commercial bank may also accept:

1. Collateral consisting of goods and materials in the stage of processing, with the owner of the collateral retaining the right to process such goods and market them, providing that at the same time he repays a respective part of the loan or replaces them with other securities;

2. Collateral of goods in the turnover stage, in the course of which the borrower has the right to sell the goods providing that, at the same time, he repays a corresponding part of the loan or replaces it with other valuables.

46.4 The sale or free transfer of production assets purchased with the participation of unrepaid bank loans or given as collateral may take place with the agreement of the respective bank. Assignment in favor of third unscrupulous individuals without the agreement of the bank is considered invalid in terms of the bank's rights.

46.5 If the company fails to repay the bank loan on time, the bank has the right, after issuing a written warning, to attach buildings, machines, and installations which were built or procured with the participation of bank loans. The bank may exercise this right only if more than 30 percent of the loan used to this effect has not been repaid.

46.6 The bank may dispose of the buildings, machines, and installations as per the preceding paragraph through the corresponding interested company which will sell them at auction. The funds obtained from such sales will be used, first, to repay the bank loan, and the difference, after the commission has been paid to the commercial organization, will be given to the debtor who will deposit the amount in the Development and Technological Updating Fund.

46.7 The minister of justice, the minister of economics and planning, and the chairman of the BNB must issue an order on the application of paragraphs 5 and 6.

46.8 Commercial banks may conduct audits on the purposeful use of the loans granted and on the conditions for preserving and the quality of commodity-material values for which the funds were borrowed.

Article 47. In the case of changes in the economic conditions, as defined by the state authorities, as well as in the case of reorganization, the state authorities must mandatorily settle the problem of the repayment or, respectively, guaranteeing of the loans under the changed circumstances.

Article 48.1 By permission of the chairman of the BNB, in connection with their activities and observing the stipulated regulations and requirements governing banking activities, the commercial banks have the right:

1. To attract funds in foreign currency from foreign banks and other juridical and physical persons;

2. To sign credit and correspondent agreements with foreign banks;

3. To accept for collection commodity and transport vouchers, checks, and other payment documents in foreign currency and foreign securities from Bulgarian companies and foreign banks and other juridical and physical persons and make payments on them.

48.2 Commercial banks may use their temporarily available funds in foreign exchange on the international currency market.

48.3 If commercial banks grant loans in foreign exchange to a company from credit resources, the terms, interest, and other conditions of the loan in foreign exchange may not be less favorable to the borrower in our country than the conditions under which the credit resources have been attracted, with the exception of the agreed upon mark-up on interest rates and other expenditures in accordance with the Regulation on Interest Rates.

48.4 In the cases stipulated in the preceding paragraph, on demand the banks will submit the necessary data to the companies on the conditions under which credit resources have been attracted.

Article 49.1 On the basis of an agreement, any commercial bank may obtain from another bank, without violating bank secrecy, data on a given company, concerning its financial and foreign exchange condition, solvency, overall indebtedness in leva and foreign exchange owed to the respective bank, or any other information.

49.2 The commercial banks exchange data as per paragraph 1 with the BNB as well.

Article 50.1 Commercial banks as well as BNB bank branches may provide current bank services to a company in depositing and handling its accounts in leva in the bank, making payments, and providing cash services.

50.2 Banks servicing a company and its branches will exchange among themselves and between them and the BNB the necessary data.

50.3 The companies are responsible for the legality and expediency of payments made from their bank accounts, on their instruction or with their agreement. The banks as well are responsible in accordance with the strict stipulations of the law according to which payments are to be made after a preliminary investigation by the bank.

50.4 If the funds kept in the accounts of the companies have become exhausted, the issued payment documents will be considered delinquent, turn into writs of execution, and payments are made after the funds have been collected in the following sequence:

1. Payments to the budget;

2. Funds owed to banks and obligations to suppliers (executors);

3. Payments for wages;

4. Payments to the state social security;

5. Payments for accidents;

6. Payments based on mandatory insurance;

7. All other payments.

50.5 Payments will be made in accordance with the sequence stipulated in the preceding paragraph and in the order in which the documents are received by the bank.

Article 51. Should a company be unable to meet its cash obligations for more than 60 days for lack of funds in its bank accounts, the bank in charge of providing current services will make public, in accordance with Chapter 3 of the USD the state of insolvency of the company.

Article 52. The organization and the various forms, sequence, and deadlines for making or refusing payments will be determined by a directive issued by the minister of economics and planning and the chairman of the BNB.

Article 53. Any commercial bank may perform the activities of another bank on a correspondent basis and against commission as agreed.

Article 54.1 Out of their revenue, the banks will pay compensations for damages caused by their fault to companies or other organizations in the following cases:

1. Failure to pay or delayed payments of documents if adequate funds were available in the bank account of the payor by the payment deadline;

2. Delayed or erroneous entry of funds in the accounts of the companies and other organizations, related to payments;

3. Other cases which have resulted in damages.

54.2 In addition to compensation as per the preceding paragraph, the banks will pay a fine of 0.05 percent per day on the respective amount, in favor of the supplier (executor) or for each individual case in which payment document has been sent to the wrong address.

54.3 The banks will collect from the payor in favor of the supplier (executor) fines of 0.05 percent per day on unpaid amounts in the case of delays in payment resulting from the inability to procure the necessary funds in the bank account on the due date of payment.

54.4 In the case of payments for nonproduced goods or nonperformed work or services, the banks will collect from the supplier (performer) and the payor, an amount of 0.05 percent per day on the illegally paid amount for the time during which it was improperly used.

Article 55.1 Should the bank determine that companies and organizations have violated legal stipulations governing price setting on investments, the bank will correct the respective accounts and payment documents and will refuse payment to the extent of the amount of the corrections.

55.2 For violations in accordance with the preceding paragraph, the bank will withhold 50 percent of the sum of the prevented illegal payment as a result of the corrections in the accounts and payment documents. The bank will deposit 80 percent of the withheld amount in a special account in the BNB while the remainder will be part of the bank's income.

55.3 Appeals on corrections made by the bank on accounts and payment documents in the cases stipulated in paragraph 1 will be resolved by the chairman of the BNB in coordination with the Ministry of Economics and Planning.

Article 56.1 Commercial banks may discount payment orders and drafts in leva for supplies, based on the conditions of company (commercial) credit for a term not to exceed 3 months. The discount is determined by the bank, depending on the financial status of the amount due according to the payment order or draft, on the basis of a percentage determined by the banks in accordance with the level of the prime interest rate.

56.2 Commercial banks which have obtained the permission of the BNB chairman may discount drafts in foreign exchange based on company credits guaranteed by the bank for a term of up to 6 months, with a percentage of discount determined by them on the basis of the international interest rates for the respective currencies.

56.3 In coordination with the Ministry of Economics and Planning and the Ministry of Foreign Economic Relations, the chairman of the BNB will issue a regulation on the application of paragraph 2.

Article 57.1 In addition to the specifically stipulated functions of the TB according to this regulation, the BVB will carry out remaining bank functions on foreign exchange operations and control related to holding and handling bank accounts in foreign exchange of companies, concerning payments and cash services in foreign exchange by the state and the companies and control over their self-financing in foreign currency. In the case of companies for which the Council of Ministers has not issued foreign exchange indicators, the bank functions as per this paragraph may be performed also by the banks as per Article 48, paragraph 1.

57.2 The Bulgarian Foreign Trade Bank will perform the following tasks as well:

1. Act as the authorized bank of the country in relations with international banks of CEMA member countries;

2. Keep the accounts on exports based on loans granted by the state to other countries and the repayment of said loans;

3. Help the banks in cases of the export companies so that the foreign exchange-financial and loan conditions of foreign economic deals may be consistent with the conditions of international markets, which must be provided by the TB crediting the leva equivalent of exports until the foreign exchange from exports has been received.

### Section III: Management and Structure

Article 58. In addition to the functions stipulated in the USD and PPUUSD, the management authorities of the TB perform the following functions:

1. The general stockholders' meeting may allow the covering or writing off from the bank balance losses in excess of 100,000 leva of uncollectible loans and other banking operations from profit funds specially set aside for the purpose;

2. The administrative council (US) determines the amount of fees, commission charges, and costs collected by the bank in the course of its operations.

Article 59. The management of TB will be assisted by an executive council (IS).

Article 60.1 The executive council consists of the bank manager, who is also chairman of the IS, his deputies, and between three and nine members elected by the US.

60.2 The executive council:

1. Organizes the implementation of resolutions of the general assembly and the US;

2. Formulates the agenda for the general meeting of the US;

3. Resolves problems related to crediting, accountability, internal control, and other matters related to the daily management of bank work;

4. Approves reports on the work of the structural bank units and bank branches and bank representatives;

5. Allows the honoring or writing off from the bank balance uncollectible loans, shortages, and losses not exceeding 100,000 leva;

6. Considers and solves other problems related to bank activities.

60.3 The executive council will approve decisions on the basis of simple majority vote.

60.4 A resolution will be considered passed if the meeting is attended by more than one-half of the members of the IS with the mandatory presence of the bank manager or his deputy. In the case of a tie the vote of the bank manager will be decisive or, in his absence, that of his deputy.

Article 61. The chairman of the Council of Ministers will determine the TB whose managers may be appointed or dismissed by him.

Article 62. When the general assembly of stockholders of a TB passes a resolution on closing down a TB and liquidating its assets, the liquidators will be appointed by the BNB chairman.

Article 63. Owners of more than 20 percent of the shares have the right to elect a proportional number of members of the US of the TB.

Article 64.1 The control council will check the implementation of the resolutions of the general assembly of the shareholders and the US and the protection of the bank's property. It will conduct audits on accountability and bookkeeping of the bank.

64.2 Audits and investigations may be conducted by the control council in its full membership or by individual members at any time of the year. The control council may recruit other individuals to conduct audits, within the framework of the funds approved by the general assembly.

64.3 The control council will keep a special record on the results of investigations and audits.

64.4 The control council will draw up a protocol on established violations, with recommendations for their correction, which will be sent to the administrative council for consideration and resolution.

64.5 The control council will issue conclusions based on the annual bank report, submitted to the general assembly. No decision on approving the balance sheet, dividing profits or covering or writing off from the bank balance uncollectible loans, losses, and shortages or relieving the US from responsibility may be taken without such a conclusion.

64.6 The members of the control council may not be members of the US or IS, or else bank personnel, or else individuals as per Article 29 of the USD.

### Chapter 4: State Savings Bank

Article 65. The State Savings Bank:

1. Will accept and keep cash deposits on demand, term deposits and savings in leva and foreign exchange of the citizens, and make cashless payments;

2. Will credit citizens for purchasing and building of housing, current needs or engaging in economic activities;

3. Will credit, finance, and supervise housing construction;

4. Will provide current bank services to public organizations;



5. Will organize the sale of securities, bond lottery drawings and payment of bond interests, and accept for controlled deposit securities of citizens and companies;

6. Carry out the activities of the state lottery and other activities as assigned by competent authorities.

Article 66. The State Savings Bank, with the help of companies, departments, executive committees of people's councils, and other interested organizations may, on an economically contracted basis:

1. Use cashless forms of payment by citizens for goods and services and obligations to the state;

2. Organize, with the agreement of workers and employees, the transfer of their wages (fees) to current accounts.

Article 67.1 The State Savings Bank may grant short, medium, and long-term loans for economic activities to companies, private citizens and lessees against interest and other conditions as stipulated in the procedure for companies. Such loans may be granted by other banks as well.

67.2 Short-term loans may be granted for a term of 1 year; medium-term, from 1 to 5 years; long-term, from 5 to 10 years.

67.3 Items, as per paragraph 1, which have been purchased with funds loaned by the bank will be considered the property of the crediting bank until the loan has been repaid in full; in the case of real estate, including the right to build a building on someone else's lot, and the buildings which will be built, the bank has the legitimate right to hold the mortgage, which must be officially registered by a notary public.

67.4 All documents on recording or writing off legal mortgages on real estate of lessees engaged in economic activities will be freed from the payment of state fees.

67.5 Mortgages held by the banks do not have to be updated to remain valid.

67.6 Objects considered as collateral for the bank will remain in possession of the debtor without the right to expropriate or use them once again as collateral without the agreement of the bank. Expropriation in favor of third unconscientious individuals may not be such as to violate bank interests.

67.7 In order to ensure the repayment of loans, banks may require cosigning by credit-worthy individuals or other guarantees.

67.8 The cosigners on bank loans remain responsible until the loan has been repaid in full.

67.9 Cattle and other raised agricultural commodities, acquired with the participation of bank loans, must be mandatorily insured to the amount of their actual

replacement value, until at least the final repayment of the loan. If an insurance event occurs, the compensation will be paid directly to the crediting bank.

Article 68.1 The State Savings Bank will operate on the basis of cost accounting in accordance with a procedure stipulated by order of the minister of economics and planning and the chairman of BNB.

68.2 The State Savings Bank will carry out its banking service activities in accordance with the procedure stipulated for the TB.

#### Concluding Stipulations

1. Mutual insurance and savings-loan associations and cooperative companies, which citizens and companies may set up in accordance with Article 142 of the PPUSD, will provide services to their members at their own risk and responsibility and may not attract deposits and savings, make loans or provide other banking services to nonmembers.

2. Officials found guilty of writing off, damaging or concealing entirely or partially a collateral as per this regulation will be punished with a fine not to exceed 500 leva as per Article 32, paragraph 2 of the Law on Administrative Violations and Penalties, unless they are subjected to a more severe punishment. The legal reports will be drawn up by the control authorities of the banks. The penal resolutions will be issued by the chairman of the BNB or an individual authorized by him.

3. The implementation of this regulation is assigned to the chairman of the BNB, who will issue instructions on its application.

4. The BNB chairman will issue regulations on the financing and crediting of capital investments, crediting working assets, and planning, regulating, and controlling monetary circulation.

**Law on Agriculture, Land Use Published**  
22000068 Sofia DURZHAVEN VESTNIK in Bulgarian  
23 May 89 pp 1-8

[Text]

#### State Council of the Bulgarian People's Republic

On the basis of Article 94, point 2, paragraphs 1 and 2, of the Constitution of the Bulgarian People's Republic, the State Council of the Bulgarian People's Republic issues the following

#### Ukase No 922 on Land Use and Exercise of Agricultural Activities

##### Chapter 1. General Stipulations

Article 1. Agricultural activities and land use will be based on the principles of the company organization, ensuring the unity and indivisibility of socialist property and the variety of forms of land use and management.

Article 2.1 Agricultural activities shall be conducted by collective farms, other companies, and individual farms.

2.2 Individual citizens and households can engage in agricultural activities without having a registered company.

2.3 Farms and other companies can be set up on the basis of state, municipal, and cooperative property, the property of public organizations and citizens, and other property. They are organized and work in accordance with the stipulations in Ukase No 56 governing the economic activities of the respective companies, inasmuch as the present Ukase does not stipulate otherwise.

Article 3.1 Users of farmland must use the land exclusively for agricultural production and manage the land carefully.

3.2 Users of farmland, producers, and those who process agricultural commodities must protect the environment, observe veterinary, plant protection, and sanitary-hygiene regulations; they must protect and improve soil fertility and prevent the pollution of the soil, water, and agricultural output.

3.3 Farmland may be confiscated in accordance with the procedure stipulated in the present Ukase for failure to implement the obligations stipulated in the preceding paragraphs.

3.4 Agricultural commodities which do not meet sanitary-hygiene standards will be confiscated in favor of the state and the culprits shall be punished in accordance with stipulated procedures.

Article 4.1 Farms, independently or with other companies, may sell their processed or unprocessed agricultural commodities domestically and abroad.

4.2 Collective farms, other agricultural companies, and individual commodity producers may set up territorial, branch or other associations for the protection of their economic and social interests.

Article 5. Farms and other companies, banks, municipal people's councils, public organizations, and other juridical persons and individual citizens may set up agricultural stock exchanges, processing, purchasing, trading, transportation, savings-credit, mutual insurance, insurance and other cooperatives, company firms, and banks in accordance with stipulated procedures.

Article 6. Farms and other companies will carry out their activities under equal conditions.

## Chapter 2. Collective Farms

Article 7.1 The collective farm is an organization for agricultural activities and mutual aid among its members, based on the principles of voluntary participation and self-management.

7.2 The collective farm will have its own name and will be a juridical person.

7.3 The collective farm will not be responsible for the obligations incurred by its members, other companies or the state; other companies and the state will not be responsible for its obligations.

7.4 The members of the farm will be responsible for the obligations of the farm to the limit of their participation deposits. The participation deposits may not be mandatorily collected or attached for the duration of the membership.

Article 8.1 A collective farm can be established by no less than five active physical persons.

8.2 The following may not set up such farms:

1. People sentenced for a malicious crime;
2. People deprived of the right to hold materially responsible positions;
3. People who have been members of the administrative council or head of company closed down because of lack of funds, with unsatisfied creditors.

Article 9.1 The collective farm will be established on the basis of a constituent contract-bylaws adopted at the constituent meeting and signed by the founders.

9.2 The constituent assembly will elect an administrative and control council and a farm chairman.

9.3 The farm will be registered with the okrug court at the place of its location, in accordance with Ukase No 56 on Economic Activities.

9.4 The registration and its publication, and the transfer of property and real estate from the members, municipalities, the state, companies, and other individuals to the farm will be freed from state and local taxes and fees.

Article 10.1 Brigades which are juridical persons as well as agroindustrial complexes directly engaged in managing the land by the time of the promulgation of this Ukase may be reorganized into collective farms in accordance with the stipulations of this chapter; the general assembly of the labor collective will perform the functions of the constituent assembly as per Article 9. By decision of the general assembly of the labor collective, they may be reorganized into several farms, depending on the specific nature of agricultural activities. With substantiated economic need and by permission of the Ministry of Agriculture and Forests, the general assemblies of labor collectives of several existing brigades may form a single collective farm.

10.2 The general assembly of the labor collective of the brigade, or respectively of the agroindustrial complex as per paragraph 1, can pass resolutions by simple majority. The members of the labor collective who are unwilling to become members of the collective farm may work in it on the basis of a labor contract.

10.3 If a general assembly fails to make a decision on the forming of a collective farm, the Council of Ministers or the minister assigned by it will reorganize the corresponding brigade or agroindustrial complex into a company or issue permits for the establishment of other farms as per the present Ukase.

Article 11.1 Farms and companies established in accordance with the preceding article will acquire free of charge the right to use the land they have managed prior to their establishment in accordance with the land registration as stipulated in the present Ukase.

11.2 The managed buildings, perennial crops, machines, equipment, livestock, raw materials, materials, and other movable property will become the property of the collective farm free of charge or, against pay, on an individual farm basis. Should the collective farm cease operations the property as per the present paragraph will not be part of the liquidation shares of the members. The property will be put at the disposal of the municipal people's council for purposes of organizing agricultural activities.

11.3 Farms with the status of juridical persons as per the preceding article will assume all rights and obligations, assets, and liabilities of the former brigade or agroindustrial complex. If several farms are organized, liabilities will be assumed to the extent of the assets, based on the division protocols.

Article 12. The bylaws of the collective farm will stipulate the following:

1. Name, seat, and object of activities;
2. Shares in cash or other property;
3. Managing authorities and decisionmaking procedures;
4. Property handling procedures;
5. Procedures for the distribution of income and determining share dividends;
6. The procedure for the acceptance of new members, withdrawals, and expelling members, and their rights and obligations;
7. Other problems related to its activities.

Article 13.1 Individuals 16 years old or older may be accepted as new members of the collective farm by written request.

13.2 Individuals who maintain labor legal relations with another company, public organization or establishment, may be members of a collective farm under the conditions stipulated by its general assembly.

13.3 The collective farms may hire workers on the basis of labor contracts.

Article 14.1 The members of the collective farm have the right:

1. To participate and vote in general assemblies, to be elected members of administrative and control authorities, and be informed of the activities of the farm;
2. To obtain work according to their skills and possibilities, based on a written agreement concerning the place, type of work, and other necessary conditions. The agreement must be signed by the chairman and a respective member. If no agreement can be reached, the question must be solved by the administrative council;
3. By agreement with the administrative council, projects belonging to the farm may be leased for managing independently or together with other people on a piece-rate or lease basis. If such request are refused, the question must be solved by the general assembly;
4. To receive dividends;
5. To receive a refund of their share participation in the case of termination of membership;
6. To receive their liquidation share if the farm is dissolved;
7. To demand of the administrative council or, respectively, the general assembly, the annulment of illegal or inexpedient decisions.

14.2 The members of the collective farm must assist in attaining its objectives and tasks. They must observe the bylaws and execute the decisions of the general assembly and the administrative council as well as the instructions of the chairman, and participate in the activities of the farm through their personal labor.

14.3 By permission of the administrative council, any member of the collective farm may sell or lease or else transfer, on the basis of his share deposit, his working machinery, buildings, equipment, livestock, inventory, raw materials, materials, and other property needed for production purposes. Should the value of the contributed property exceed the share deposit, the difference must be paid by the investor.

Article 15.1 A member of a collective farm may be expelled in the following cases:

1. If he obstructs the implementation of the objectives and tasks of the farm;
2. If he fails to make the payments stipulated in the bylaws;
3. If he systematically violates the bylaws and the decisions of the farm authorities;
4. If he fails to protect or if he damages farm property.

15.2 If the violation is not major or the damage is insignificant, the general assembly may issue a warning of expulsion.

Article 16.1 Any member of a collective farm may demand of the rayon court, within 30 days of being informed, to annul illegal or antistatutory decisions made by the general assembly and the administrative council, or actions by the chairman, including the decision to expel said member. The annulment may be demanded of the control council as well.

16.2 The court will review the case, with the participation of a prosecutor. The decision of the court will be final. The rayon judge may stop the execution of the decision until a decision has been made.

Article 17.1 The authorities of the collective farm will be the following: the general assembly, the administrative council, the chairman, and the control council.

17.2 Individuals who have not been members of the constituent assembly or the spouses or relatives to the third degree, including those by right or marriage, of a member of the administrative council, the control council or the chairman may not be elected members of administrative and control authorities.

17.3 In a farm with less than 50 members, by decision of the general assembly, instead of an administrative and control council, no more than a chairman and two controllers may be elected.

17.4 The chairman and the members of the administrative council of the farm will be jointly responsible for any deliberate harm they have caused to the farm.

Article 18.1 The general assembly will consist of all members. If the members of the farm are numerous or if the activities of the farm are performed in different settlements, which makes holding a general assembly difficult, its functions may be performed by a meeting of representatives, elected in accordance with the procedure stipulated in the bylaws.

18.2 The general assembly must hold a regular session, summoned by the chairman, no less than once every year.

18.3 The general assembly must be summoned with a written notice listing the agenda, and exhibited in a visible place in the administrative premises of the farm, the municipality or the mayoralty or any other suitable place or by any other means, no less than 2 weeks prior to the scheduled date for the meeting.

18.4 The general meeting may be called to an extraordinary session by the chairman, on his initiative, or by ten percent of the members or by any member of the administrative or control councils 7 days before the date of the requested date of the session.

18.5 Should the chairman fail to act, any individual indicated in the preceding paragraph may summon a general assembly in accordance with the procedure of paragraph 3.

Article 19.1 The general assembly shall be considered legal if no less than two-thirds of the farm membership is present.

19.2 If there is no quorum, a new meeting will be scheduled within a period of 2 weeks, which will be considered legal if more than one-half of the farm members are present.

19.3 Items which have not been included in the announcement of the session may be introduced in the agenda by unanimous decision of those present. Unannounced items may not be included in a rescheduled assembly.

19.4 Minutes will be kept of the proceedings of the sessions, which must be signed by the chairman of the meeting and the recorder, and bound in a special file.

Article 20.1 The general assembly can:

1. Amend and supplement the bylaws;
2. Accept and expel members; the general assembly may empower the administrative council to accept members;
3. Determine the number and elect by secret vote, for a term of no more than 5 years, or release members of the administrative and control councils;
4. Adopt the plan and long-term and short-term target programs and other important tasks relative to the activities of the farm;
5. After hearing out the report of the control council, the general assembly must ratify approve the annual report submitted by the administrative council and the system for the forming and distribution of the income and the balance sheet;
6. Define the conditions and procedure for making additional voluntary share investments by the members and establish the dividends they will pay;
7. By secret vote, elect for a term not to exceed 5 years, or release the chairman of the farm and the chairman of the control council;
8. Adopt regulations governing the organization of internal cost accounting, wages, and dividends;
9. Make decisions on opening, reorganizing or closing down branches and representative organizations and on participating in companies in the country or abroad or else granting this right to the administrative council;
10. Make decisions on membership in associations;
11. Make decisions on setting up monetary funds and establishing the procedure for their collection and use;
12. Make decisions on purchasing or condemning real estate, use of credit and investments in capital funds in excess of 250,000 leva, and other deals of essential significance;

13. The general assembly considers and settles complaints concerning the activities of the chairman, the administrative council, and leading officials;

14. It can forgive partially, postpone or extend payment of monetary obligations assumed by members and workers employed by the farm. These stipulations do not apply to claims filed against the chairman, the members of the administrative and control councils, as long as they hold their position and for 1 year after they have been released from their duties;

15. Determine the conditions and procedure for collecting voluntary targeted property contributions and define the conditions for paying for them;

16. Make decisions on reorganizing or terminating the activities of the farm.

20.2 Every member of the farm has the right to one vote.

20.3 The decisions of the general assembly will be passed by majority vote of no less than two-thirds of those present.

Article 21.1 The administrative council:

1. Organizes the execution of the resolutions of the general assembly and reports to it;

2. Passes resolutions on the use of loans, issuing guarantees, purchasing and granting licenses, and solving other property problems with the exception of those within the range of competence of the general assembly;

3. Considers the proposals and reports of the control council and individual members within a 14-day period;

4. Annuls rules passed by the chairman and, in cases of violations of laws and bylaws, damages to the property of the farm, and violations of financial discipline, has the right temporarily to remove the chairman from his duties and immediately summon a general assembly;

5. Determines the wages paid to the farm chairman.

21.2 Only farm members may be elected members of the administrative council. The members of the administrative council may not be elected for more than two consecutive terms.

21.3 The administrative council must meet no less than once monthly. It can be summoned to a meeting by the chairman or any one of its members. Its meetings are considered legitimate if attended by no less than two thirds of its members.

21.4 The meetings of the administrative council must be open to the members of the farm. Decisions are made by open vote and simple majority and are entered in a special record.

21.5 The members of the administrative council have the right to additional wages, which are based on the regulations governing internal cost accounting, wages, and dividends, but may not exceed one-half of the average annual wage paid by the farm.

Article 22.1 The chairman of the collective farm will organize the implementation of the decisions made by the general assembly and the administrative council and manage the current activities of the farm and represent it. He is automatically the chairman of the administrative council.

22.2 If a chairman must end the performance of his duties as per Article 21, point 4, or for any other reason, the administrative council must elect a replacement for a period not to exceed 3 months.

Article 23.1 The control council supervises the execution of the resolutions passed by the general assembly and the administrative council and the protection of the property and reports to the general assembly.

23.2 The members of the control council have the rights of a financial-control authority and may not be reelected for more than two consecutive terms.

23.3 If violations of the law or the bylaws are noted, the control council must summon the general meeting within a 7-day period.

23.4 The members of the control council have the right to a fee in accordance with their control work and in accordance with the procedure and amount stipulated by the general assembly.

23.5 An individual who cannot be a founding member or who holds or has held a materially responsible or accountability position during the preceding year, including the chairman or a member of the administrative council, may not be a member of the control council.

### Chapter 3. Individual Farms

Article 24.1 An individual farm, in the sense of this Ukase, is a form of engaging in agricultural activities by an individual farmer, a household, or several farmers or households.

24.2 The individual farm carries out its activities on its own land or land leased or given for use. The individual farm may use its own or leased or rented buildings, machines, equipment, and other agricultural inventory.

24.3 Individuals in individual farms may rent or purchase tractors, combines, trucks, and other motor transportation vehicles as well as other types of agricultural equipment without restriction as to model, capacity or other features.

Article 25.1 Activities in the individual farm are carried out through the personal work of the farmer and the members of his household.



25.2 Regardless of whether it has been registered as a company, the individual farm may employ, on the basis of a labor contract, as many as 10 workers and, in the case of seasonal or extraordinary work may sign term labor contracts with an unlimited number of workers.

Article 26. Individual farmers may form an association or a cooperative for the following purposes:

1. Joint purchase and use of machines, equipment, transport facilities, warehouses, irrigation systems, and others, and for purposes of their repair, maintenance, and updating;
2. Procurement of machines and other agricultural inventory, transportation facilities, spare parts, seeds, planting materials, fertilizers, chemicals, fuels, and others;
3. Processing of agricultural commodities (dairies, wine cellars, canning enterprises, and others);
4. Produce marketing;
5. Mutual insurance, crediting, and aid;
6. Other activities which do not violate the laws.

Article 27. Individual farmers will not be taxed on their profits. The personal income of the participants in individual farms will be taxed as per Article 13, paragraph 2, of the Law on the General Income Tax.

Article 28. The stipulations concerning private and collective companies of citizens, as per Ukase No 56 on Economic Activities, will apply to the economic activities of individual farms unless otherwise stipulated in the present Ukase.

#### Chapter 4. Piece-Rate and Leasing

##### Section I. Piece-Rate

Article 29.1 Piece-rate is a form of organization and payment of labor in agriculture.

29.2 Piece-rate, in accordance with specific conditions, could be individual, family or group.

29.3 The general assembly of the members of the collective farm and, respectively, the administrative council of other companies, in accordance with the legal acts and bylaws, may adopt rules governing the organization of piece-rate as part of the general wage regulations.

Article 30.1 A written agreement must be signed between the piece-rate workers and the farm, dealing with reciprocal obligations related to labor relations and the stipulated term as well as the conditions for production work.

30.2 The agreement will determine the obligations of the piece-rate workers to produce and deliver to the farm or to an individual appointed by the farm the produce in the stipulated variety, quantity, quality, price, and deadlines.

30.3 The agreement will determine the obligations of the farm to provide the piece-rate workers with the following: machine cultivation, seeds, fertilizers, fodder, fuels, agrochemical and veterinary services, and others, as well as to pay the stipulated wages in accordance with the goods delivered by the piece-rate workers. Their wages will be determined as the difference between the price and mark-ups from the selling of the produce and the expenditures and withholdings for the farm. The farm must accept the entire amount of goods produced from the areas as agreed upon with the piece-rate workers or the number of heads of livestock raised. The parties may stipulate that part of the surplus produce is kept for use by the piece-rate workers.

30.4 The value of the services, procedure, and means of their performance, provided free of charge by the farm, will be stipulated in the agreement.

30.5 The stipulated wages will be owed to the piece-rate workers in accordance with the conditions of the agreement, regardless of the end results shown by the farm or the company.

30.6 If the stipulated goods have not been produced by reasons independent of the will of the piece-rate workers, the farm will pay such workers the minimal wage established for the country.

Article 31. Disputes on the implementation of the piece-rate agreement are subject to the jurisdiction of the courts.

##### Section II. Leasing

Article 32.1 With a leasing agreement, the municipal people's councils or the mayoralties designated by them, the collective farms or other companies grant the lessees, for a stipulated period of time, land and other agricultural projects belonging to them, to be managed against a certain payment.

32.2 The lessee may be a private citizen, an adult member of a household, a collective of citizens, a cooperative or another company, regardless of its location or seat.

32.3 Citizens and companies owned by citizens may not lease out their land.

Article 33. The leasing contract must be put in writing and registered by the municipal people's council at the location of the project. If the subject of the contract is land or any other type of real estate, it will be entered in the notary books where the property is located.

Article 34.1 The contract on leasing land and other farm property will include, based on the nature of activities:

1. Description of the project and the condition in which it is delivered;

2. The term, which can be no less than 5 years and no more than 50 years;

3. The type of agricultural commodities and parts of commodities which the lessee must offer for purchase by the lessor or to a company designated by the latter. This stipulation will not apply in the case of land in mountainous or semimountainous areas;

4. The lease payment—amount and deadline of payment, which could be in cash, in produce or mixed;

5. The obligations of the lessor in granting machines, equipment, seeds, fertilizers, materials, fuels, and so on; in purchasing the goods; in providing transportation, repair, trade, legal, agrotechnical, information or other services;

6. The obligations of the parties related to basic and current repairs;

7. The obligation of the parties relative to improvements, reorganizations, technological updating, etc.;

8. The obligation of the parties concerning insurance;

9. Obligations to maintain soil fertility.

34.2 The leasing contract may stipulate that the lessee may acquire ownership of the movable property assigned to him for management after paying for its value together with the leasing payments.

34.3 The parties may agree on changes in the type and nature of the produce as per item 3 of paragraph 1.

34.4 Former members of TKZS and their heirs, engaged in agricultural activities, will be exempt from making a lease deposit for the land granted to them, equaling the amount of the land they contributed to the TKZS.

Article 35. The lessee may not transfer the object of the lease to other individuals.

Article 36.1 The projects which may be leased shall be defined by the municipal people's council and, respectively, the general assembly of the collective farm or the administrative council of any other company.

36.2 Such projects may be awarded on the basis of a public bid, organized by the lessor at the place of location of the project. Collective farms may lease projects to their members on the basis of internal bids or competition in accordance with a procedure stipulated by the general assembly.

Article 37.1 In the case of a leasing contract concluded with a collective, relations among its members will be regulated on the basis of a written agreement which will also stipulate the means of distribution of their obligations and income.

37.2 Relations among the members of the collective will be regulated in accordance with the stipulations of Articles 357-364 of the Law on Obligations and Contracts, inasmuch as no other stipulations are included in the contract.

Article 38.1 The contract on leasing land or other agricultural projects shall be terminated in the following cases:

1. When the term of the lease has elapsed unless the contract has been extended;

2. By agreement between parties, which must be put in writing if it involves real estate;

3. With a written notification by the lessee, issued at least 1 year prior to the start of the subsequent agricultural year;

4. If the lessee has died, has been incarcerated or developed permanent disability, thus preventing the implementation of the contract, unless his heirs or, respectively, members of his household or the remaining members of the collective state within a period of 2 months their willingness to become parties to the contract.

38.2 If within 1 month prior to the end of the term of the contract no party has declared its intention to terminate it, the contract will be considered as extended by 1 more year.

Article 39. The conditions and procedure for changes in the amount of the lease payments will be formulated in the contract and disputes will be settled by the courts.

Article 40.1 The lessor may terminate the contract if the lessee does not make use of the project as stipulated in the conditions of the lease.

40.2 The lessee may terminate the contract if the lessor fails to meet his obligations according to the contract.

40.3 The lease contract involving land or other real estate may be annulled by the courts.

Article 41.1 The contract on leasing farmland for a term of 10 or more years to the lessee may stipulate allowing a place for a yard and the building a house as residence and farm buildings, in accordance with the procedures stipulated by the Central Land Regulation Commission.

41.2 If the contract is not terminated by the fault of the lessee, the lessee remains the owner of the residential house and the other buildings.

Article 42.1 The labor collectives of poultry and live-stock farms and complexes, processing facilities and others may set up cooperatives or companies of citizens, which may lease the respective projects on the basis of a lease contract concluded, respectively, with a state authority, as stipulated by the Council of Ministers, a

collective farm or another company which manages the project. The lessee accepts the project with all related assets, liabilities, rights and obligations.

42.2 Lessees as per paragraph 1 may also be given for use farmland for the production of fodder or other agricultural commodities needed for their basic production purposes.

## **Chapter 5. Land Regulation and Land Use**

### **Section I. Land Regulation Authorities**

Article 43.1 Land regulation includes identifying, categorizing, and filing agricultural land in the country and by municipality; classifying farmland for collective and individual farms; determining the system to be applied for the use of farmland.

43.2 The land regulation authorities shall be the following:

1. The Central Land Regulation Commission, consisting of: chairman: the minister of agriculture and forests; deputy chairman: the deputy minister of economics and planning; secretary and members: a supreme court justice, a deputy chairman of the Committee for the Territorial and Settlement Structure, the deputy chairman of the Committee on the Protection of the National Environment, and two agricultural specialists. The specific members of the commission will be named by the chairman of the Council of Ministers;

2. Municipal land regulation commissions: chairman: a member of the executive committee of the municipal people's council, as defined by the latter, and members: a rayon judge and four representatives of the population, two of whom must be agricultural specialists. The members will be elected by the population by secret vote.

Article 44. The Central Land Regulation Commission will:

1. Organize land regulation;
2. Provide methodical guidance to the work of the municipal commissions;
3. Determine the land subject to intensive (large-scale) farming, which could be farmed only by collective farms and other companies;
4. Determine the size of the land for individual land regulation for households, individual citizens, and companies of citizens by rayon, in accordance with soil, climate, and other conditions;
5. Consider appeals of decisions made by municipal commissions and issue instructions on land regulation matters.

Article 45. The municipal commissions will engage in land regulation on the territory of the municipality; they will define the procedure and conditions for the use of municipal and common pastureland in accordance with the regulations stipulated by the central commission and will control their use.

### **Section II. Land Use**

Article 46.1 The size and boundaries of the land of the farms as per Article 10 will be determined by decisions of the municipal land regulation commission. In defining the amount and boundaries of the land of collective farms, unused land will be assigned for individual land use.

46.2 Farmland which is not granted for use by collective farms will be granted for use by citizens or companies by the municipal people's council or the mayoralties, as assigned by it.

Article 47. Citizens who are members of the same household may obtain for their use farmland in amounts stipulated by the Central Land Regulation Commission for the specific area of the country.

Article 48. The municipal people's councils will survey the population concerning the land and the size of individual farms which may be granted to the households.

Article 49. The land to be granted to households will be registered by the municipal commission. The municipal commission will assign the registered land, classified by type and quality, in accordance with the adopted standards for individual farms.

Article 50.1 Land registered to households, as defined by the municipal commission, will be announced publicly. In granting land for individual farms, priority will be given to former members of labor cooperative farms or their heirs whose main residence is in the settlement where the land is located.

50.2 The remaining consolidated land will be divided with the agreement of the households or, should no agreement be reached, by drawing lots.

50.3 If not enough land is available to meet the demand of the households, by decision of the municipal commission and in accordance with the regulations stipulated by the central commission, such land must be awarded as follows:

1. Through competition on assuming obligations for agricultural specialization and supplying the municipality with certain agricultural products;
2. Through bids.

Article 51.1 The registered households will obtain the land as stipulated in the preceding article on the basis of a contract signed with the municipal people's council or the assigned mayoralties, for use against payment or free of charge for a period ranging between 10 and 50 years.

51.2 In mountainous and semimountainous, border, and other areas, as defined by the Central Land Regulation Commission, the registered households will be given the right to use their allotted land free of charge. The stipulations of Article 41 will apply to the users of such farmland.

51.3 If the use of the land is made against payment, the payments will be deposited into the land regulation and reclamation fund of the municipal people's council. One-half of this income will be paid to the Republic Land Regulation and Reclamation Fund. These assets will be used for the recultivation of land, building rural roads, reclamation, and other land regulation purposes.

Article 52.1 The right to use as per the preceding article may be revoked only in the cases stipulated in Article 57.

52.2 The allotted land may be condemned in cases stipulated by the law only for major state and social needs which cannot be met otherwise; users will be offered in compensation other land of equal size and quality and will be paid compensations for improvements and damages caused. Should the municipality have no available land, the user will also be paid a compensation for the right to use, providing that this right was acquired against payment.

Article 53.1 All uncultivated, neglected, underproductive, small-sized, sloped, and other land, not used at full capacity or abandoned, regardless of its owner, must be mandatorily registered by the municipal people's council.

53.2 The land as per paragraph 1 will be granted for private farm use to applicants. In the case of a larger number of applicants, preference will be given to families with several children and if all other conditions are equal, lots will be drawn for the land.

53.3 Members of collective farms and workers in other farms may, in accordance with this article, obtain as much as 10 decares in flat and as much as 20 decares in mountainous and semimountainous areas; other citizens may receive, respectively, nor more than 5 and no more than 10 decares.

Article 54. Members of collective farms and workers in other farms, as well as pensioners living in villages and who participate, to the extent of their possibilities, in public farming, mechanizers employed in machine-tractor stations, hydraulic reclamation workers and construction workers, workers in animal husbandry and poultry farms and in selection and veterinary-medical centers, as well as people temporarily hired in agricultural production, teachers, physicians, scientific workers

and auxiliary personnel of institutes with land, storekeepers and other individuals serving the rural population, have the right to land for personal use in accordance with the Statue on the Farm, not to exceed 5 decares in intensive areas, 15 decares in mountainous and semimountainous areas, and 8 decares in all other areas. The general assembly will set the specific amount which could be higher than the stipulated number of decares for the respective areas.

Article 55. The registered individual farms cannot be divided. If the heirs are unwilling to cultivate the land collectively and cannot agree on the person to whom it should be left, the land will be assigned to one or several of them by the court. The remaining heirs have the right to receive their share in cash from the improvements made and the inventory, agricultural equipment, and livestock.

Article 56. The farmers must invest their personal labor in the farmland they use.

Article 57. If farmland granted for use is systematically not used for agricultural production or else is used in ways which harm soil fertility, such land shall be expropriated by decision of the rayon court, based on a petition filed by the municipal people's council or the prosecutor.

#### Chapter 6. State Control of Agricultural Activities

Article 58. The state will regulate agricultural activities through state orders through a system of long-term economic regulators and rates in accordance with Ukase No 56 on Economic Activities, unless the present Ukase stipulates otherwise.

Article 59.1 The state will assist the collective and individual farms in their efficient utilization of the land and development of highly profitable farming by:

1. Providing favorable conditions and financial facilities and state participation in farm property insurance;
2. Financing through the state budget of major investment projects for agricultural needs;
3. Share participation in the building of projects by collective agricultural producers and ensuring, on the basis of contracts, the procurement of scarce raw and other materials for said projects;
4. Allowing mark-ups for prices of agricultural produce, and subsidies;
5. Making agreements with collective and individual agricultural producers for providing specific incentives and conditions for the development of specific sectors of agricultural production;
6. Financing research leading to the creation of high yielding livestock breeds and plant strains and development of new agricultural technologies;

7. Organizing and financing services for veterinary and plant sanitation control and assistance to farmers;

8. Providing weather and other information;

9. Assisting in the development, testing, production, and importing of contemporary agricultural equipment and equipment for the processing of agricultural commodities;

10. Procuring seeds of high yielding plant strains and purebred cattle;

11. Providing assistance in developing municipal, oblast, and national stock exchanges for various types of agricultural commodities.

59.2 The conditions, amounts, and procedure for state aid will be determined by the Council of Ministers.

Article 60.1 Farms and other agricultural companies will pay taxes in accordance with Ukase No 56 on Economic Activities. The Council of Ministers will determine the procedure for total or partial relief from taxes or granting tax facilities for agricultural activities. If use is made of land on which state budget-financed reclamation projects have been carried out, the rental will be increased by amounts stipulated by the Council of Ministers.

60.2 Higher wages in farms and other agricultural companies will not be regulated with a tax on the increased wage funds as compared to the preceding year.

Article 61.1 Prices of agricultural commodities will be determined on the basis of three categories:

1. Prices based on supply and demand;

2. Maximal prices within which the agricultural producers can freely set specific prices;

3. Fixed prices for a limited number of agricultural commodities.

61.2 The prices of agricultural commodities as per points 2 and 3 of the preceding paragraph will be determined in accordance with a procedure set by the Council of Ministers. The same procedure may be used in setting seasonal prices.

61.3 Changes in prices of agricultural equipment, fuels, energy, chemicals, fertilizers, services, and other industrial goods used in agriculture will be taken into consideration in establishing fixed and maximal prices with a view to ensuring an equivalent trade between industry and agriculture.

Article 62.1 Collective farms and other companies managing farmland may be assigned state orders for a limited number of agricultural commodities by the Council of Ministers or state authorities as assigned by the Council of Ministers, in accordance with Ukase No 56 on Economic Activities.

62.2 No state orders will be assigned to individual farms.

Article 63. The oblast and municipal people's councils will provide conditions for the development of the system of self-satisfaction with basic agricultural commodities for the population on their territory and for the full use of the farmland through all available forms of collective and individual farming.

Article 64.1 Collective farms and other agricultural companies as well as individual farmers can earn foreign currency for goods they have exported, in accordance with Ukase No 56 on Economic Activities. In the case of independent farmers which are not registered companies, the rules pertaining to private and collective companies owned by citizens will apply in the case of foreign currency.

64.2 People working on the basis of piece-rate and leasing systems may obtain foreign currency from the income of the respective farm or any other company in accordance with the procedures stipulated in the piece-rate or leasing contract.

Article 65. Foreigners, branches owned by foreigners, and companies with foreign stockholding or share participation in excess of 49 percent may be granted farmland for lease or rent by permission of the minister of agriculture and forests, coordinated with the minister of economics and planning.

#### Additional Stipulations

1. In the sense of this Ukase:

1. The term household will apply to husband and wife and their parents and unmarried children over the age of 16, who live with them;

2. The farm year will come to an end after harvesting the crop, based on the specialization of the property, unless otherwise specified;

3. Farms which are juridical persons and other agricultural companies may call themselves "agrocompanies" in accordance with the present Ukase.

2. If the main activity of the company or any other juridical person is not agricultural production, agricultural activities may be organized as a branch company or a branch with its separate balance sheet. In such cases the stipulations of this Ukase will apply in the area of agricultural activities.

#### Provisional and Concluding Stipulations

3. A new Article 43a will be added to Ukase No 56 on Economic Activities:

"Article 43a.1 On the initiative of labor collectives of state and municipal companies or their branches, or on its own initiative, the authority as per Article 11, paragraph 3 could reorganize them into shareholding companies and grant the members of the labor collective the right to acquire shares listed in their names.



"43a.2 The number and nominal value of such shares which may be acquired by a member of the labor collective will be stipulated in the bylaws of the shareholding company.

"43a.3 When the legal labor relationship is terminated, the stock will be purchased by the company at nominal value. The owners may retain such shares if the labor contract is interrupted for reasons of retirement.

"43a.4 The stock as per this article may be inherited if the heirs work in the same company or if they are enrolled in secondary school or university, and if they sign a contract to work in the company after graduation. In all other cases the shares shall be redeemed at nominal value."

4. In the case of conflict between the stipulations of the present Ukase and existing laws, the stipulations of the present Ukase will prevail.

5. Laws and resolutions of the Council of Ministers and of other state and public authorities which conflict with the present Ukase are hereby revoked in accordance with Article 97 of Ukase No 56 on Economic Activities.

6. The reorganization of agroindustrial complexes and brigades as per the procedure stipulated in Article 10, paragraph 3, will be undertaken if the general assemblies of their labor collectives fail to pass a resolution on establishing collective farms within the deadline stipulated by the Council of Ministers.

7. The Council of Ministers will set the specific features of the economic conditions, regulatory agents, and standards governing agricultural activities.

8. The implementation of the present Ukase is assigned to the Council of Ministers.

Issued in Sofia on 19 May 1989 and stamped with the state seal.

T. Zhivkov, chairman of the State Council of the Bulgarian People's Republic.

N. Manolov, secretary of the State Council of the Bulgarian People's Republic.

## GERMAN DEMOCRATIC REPUBLIC

**Strategies for Increasing GNP Outlined**  
*23000179 East Berlin EINHEIT in German*  
*Vol 44 No 5, May 89 (signed to press 10 April 89) pp 424-430*

[Article by Prof Dr Helmut Koziolek, member of the SED [Socialist Unity Party of Germany (GDR)] CC [Central Committee] and director of the SED CC's Central Institute for Socialist Economic Management: "Requisites for Increasing Productive Accumulation"]

[Text] The comprehensive preparation of the 12th Party Congress as decided at the 7th meeting of the Central

Committee [CC] aims at clarifying the tasks which must be implemented in the 1990's, beginning with the 1991-1995 5-year plan. To a great degree they are those issues concerning the future growth of our country's economic strength, for economic growth—based on modern productive forces—is the solid foundation for a rising standard of living, social security, full employment, a high educational level, and free health care. As a task of highest economic priority, to augment national income to the extent required and to increase the distributable end product, the Central Committee emphasized strengthening the accumulation power of the productive sectors.<sup>1</sup> That in turn is largely decided by the pace of economic performance growth. For this very reason, securing a high performance growth from investments was one of the focal points of the latest consultation of the Central Committee with the general managers of combines and the party organizers of the Central Committee.<sup>2</sup>

With the further development of the material-technical base, the economic accumulation process occupies a key position in bringing productive forces to the most modern level, and thus to the further development of an effective production structure of our national economy. With the purposeful use of accumulation means in the productive sectors, the direction, pace and effectiveness of structural changes are guided which simultaneously accompany changes in the structure of society's total labor. This confirms Engels' statement that accumulation must be seen as the most important progressive function of socialist society.<sup>3</sup>

### What Is Productive Accumulation, and What Is its Effect?

In our time, in which productive forces develop turbulently, accumulation is always and to a significant extent "involved" in order to attain those high economic growth rates which become possible with the scientific-technical revolution. It is well-known that large, one-time expenditures are required to achieve great technological breakthroughs. At the same time, utilization of existing resources—such as energy and material—and coping with geological problems in producing raw materials demand large-scale accumulation means.

A decisive factor is the effect of accumulation on the entire reproduction process in its interlinkage. Marx, who always linked the qualitative development of production with scientific-technical progress, pointed out that accumulation is tied to new inventions and discoveries and further industrial development in general, and that simultaneously, old capital in its technical form is being perfected.<sup>4</sup> This demonstrates the connections between accumulation and society's reproduction process, the national economy and economic units.

Accumulation means originate in their material and financial forms in the produced national income—structurally transformed through exports and imports—and, lastly, in the available national income. Their

productive use serves the expansion of fixed assets as well as working capital. Nonproductive accumulation leads to expansion of fixed assets in nonproducing sectors, such as health care, education, culture.

It is undeniable that accumulation means are necessary for all these purposes. But the proportions between productive and nonproductive accumulation depend on time and conditions. Ever since the 8th Party Congress decided on the policy regarding the main task, it was always determined in such a way that both sides of this policy were taken into account. The raw materials base was strengthened, the processing procedure was advanced, key technologies were developed, applied, and connected with the modernization and rationalization of the economy. At the same time, significant accumulation means flowed into the nonproducing sector. For the housing construction program alone, for example, 350 billion marks were expended since 1971. If we now make it our task to strengthen productive accumulation to the extent corresponding to the requisites of the further development of our socialist industrial country, then it is a matter of ensuring in the future, also, a growth of the national income by about 4 percent annually. Such growth is necessary in order to be able to continue the course of the unity of economic and social policy.

When we speak of strengthening accumulation power, we mean above all greater effectiveness of the means from the national income spent for productive accumulation, and not only their increase. We mean their more rapid effectiveness, dealing with them in a more economical manner, greater growth in net product, profit, products for the population, industry, and exports. Comprehensive socialist rationalization has proven to be the major way to noticeably increase productivity and performance in economic breadth and with the least possible expenditures. It holds true in general that the accumulation process under the conditions of the scientific-technical revolution is inseparably linked with comprehensive intensification, hence requiring reduction of all types of expenditure. At the same time, high accumulation power depends on the accumulation volume. For this reason our party has never neglected growth orientation; it constantly insists on creating the basis for more accumulation means, also, through the orderly increase of the produced and available national income.

The accumulation ratio characterizes that portion of the available national income which is utilized for the purposes of accumulation. It indicates how much society in its respective development expends directly for further growth. For the remaining—and by far the largest—part of the national income consists of consumption means and means of nonproductive accumulation, which are spent on schools, hospitals, etc. Thus the ratio of productive accumulation decides to a great extent how future growth can be ensured for satisfying the population's demands, the requisites of one's own national economy, and with regard to foreign trade effectiveness.

Naturally, the accumulation ratio alone is not significant, it is always a matter of the effectiveness of accumulation—as Marx already pointed out—the true effect on the reproduction process, which is influenced to a great extent by the structural composition of accumulation. It is understandable that machinery and equipment—as compared to buildings, for example—as active parts of accumulation are particular focal points of interest when it concerns growth and structure of the national income, since they decide primarily whether accumulation promotes technical progress, i.e., helps the breakthrough of key technologies, whether the joining of microelectronics, machine-building, etc., is promoted, [and] the propagation speed of modern technology is ensured through the sectors. With productive accumulation it is, therefore, always a concern that the necessary growth of national income is ensured and, at the same time, that the structure of national income is improved in such a way as is required to satisfy demand, strengthen foreign trade, [and] implement technical progress according to historically matured conditions.

#### Effective Use of Investments of Growing Importance

From the aspect of its influence on economic growth, accumulation power should not be defined too narrowly. In implementing the economic strategy, we count on various accumulative effects. In this we include: the priority use of material and financial means for strengthening the material-technical base; the expansion of the machinery and equipment share of investments at the expense of the construction share, ensuring a high scientific-technical and economic standard of the equipment and construction performance; the use of amortization for the intensively expanded reproduction; mastery of the time factor; further development of multiple-shift labor as well as further aspects of complex reproduction of fixed assets. When the 1989 economic plan provides for investments in the amount of 76 billion marks, in addition to accumulation means this also contains implemented amortization which, as is well-known, a significant source of qualitative perfecting of durable production funds in particular.<sup>5</sup>

Investments augment the effectiveness of productive accumulation primarily if their use in the producing sectors serves the accelerated development and broad economic application of modern productive forces, with key technologies at the center. In this way the decisive prerequisites are created to translate top scientific performances into high-quality products through state-of-the-art technologies and comprehensive rationalization. This raises the expectations placed on one's own construction of rationalization means as well as the producers of capital goods. But in the last analysis it is a demand placed on workers in all areas of the economy. If about four-fifths of the production growth is to come permanently from investments, then "with lowering of costs and improving the ratio of expenditure and result,...basically each one at his workplace decides every day to what extent our economy has available the means to implement the goals in the economic and social policy area."<sup>6</sup>

Preparatory accumulation and investment implementation take place in many ways and at all times. All economic processes affect in one way or another the quantity and structure of the surplus product, and thus the process of productive accumulation. This holds especially true for the reproduction process of the combines, factories, and cooperatives as well as relations among them, since it is primarily decided there at what expenditure/result ratio the products and performances are produced, and what extent of productive accumulation is made possible thereby. For example, by the presetting and implementation of sophisticated scientific-technical and economic goals in research and development—frequently long before concrete investments have been decided on—the strengthening of productive accumulation is promoted as well as by the timely transfer of new products into production in order to rapidly achieve a demand-specific number of products and favorable proceeds. Ensuring economic proportionality—specifically a balanced ratio between end production and ancillary deliveries—thorough the preparation and timely implementation of every investment project regarding the performance and effectiveness goals provided in the basic decision, [as well as the] orientation of all renewal processes toward the highest economic effectiveness of scientific-technical work [all] promote productive accumulation. Every performance aiming at the manufacture of need-oriented production at low costs, high quality, accelerated increase of labor productivity, early implementation of tasks of science and technology planning, earlier start-up of economic investment projects, shorter construction time, strengthens the possibilities of productive accumulation—regardless whether it is carried out by the capital goods industry or the consumer goods industry.

Overall what is involved is the development of a type of productive accumulation and investment oriented fully toward comprehensive intensification. This includes designing every investment project in such a way that every mark invested results in the largest possible increase of the national income and distributable end product, a considerable growth of labor productivity, and a noticeable lowering of costs. That requires investments to be concentrated even more strongly on rationalization and modernization of what exists, since fixed assets available in the producing sector, for instance, surpass annual investments twentyfold. But to achieve the highest use-effect in this manner necessitates decisively greater economic efforts in order to provide highly productive machinery and equipment, provide precise construction performances, and qualify people for the new installations. For it is undeniable: Investments function as the motor of economic development only if they produce top results in record times.

Besides their significance for effectiveness and performance growth, investments under our socialist planned economy retain their great importance for further improving the working conditions of workers. This is made clear not only by the considerable investments

which are purposefully used to remove impediments and to reduce work places with health hazards and heavy physical labor, [but by the fact that] every investment in our country is chiefly judged by how it will help improve working conditions.

Time and again experience confirms how strongly mastery of the time factor influences the effective shaping of the accumulation and investment process. Shorter implementation periods, fewer uncompleted investments, timely accounting of all construction and equipment performances parallel with shell construction, uniform, coordinated planning and management of scientific-technical work and investment activity; all these have the effect of reduced expenditure of productive accumulation; the sooner the result, the sooner the expenditure of resources is recouped.

By contrast, projects that take a long time, that tie up funds for years without becoming production-effective lead not only to uncompleted investments, but also impair the degree of novelty and the effectiveness of the newly created capacities, and can even require additional expenditures for their modernization.

#### Continuation of Processes of Structural Change

In the interest of growing accumulation power, it is important to continue consistently in the future the far-reaching processes of structural change of the national economy, initiated to implement the economic strategy and directed at intensification. This definition aims at:

- traveling the road of comprehensive modernization of production facilities and socialist rationalization of work processes on an extensively larger and broader scale and with an even higher economic result;
- tapping the existing large reserves—large compared to the level of advanced industrial countries—in the consumption of energy, raw and auxiliary materials per production unit;
- purposefully developing products advantageous for the customer and creating the capacities for their rapid, safe introduction into production and low-cost manufacture.

This requires development above all of those sectors which today and in future make the largest contribution to the national income. In our planned economy, whose performance strength decisively rests on the combination of the advantages of socialism and the scientific-technical revolution, this means using the accumulation means above all for the qualitative and quantitative development of our own production in the area of key technologies. So far, 14 million marks have already been

expended for our own microelectronic base, thus creating important preconditions for expanding modern computer technology, the production and use of industrial robots, but also for increasing the performance and improving the quality of conventional machinery, equipment and procedures which are tied to large-scale productive and material-economic linkages.

With flexible automation solutions, as an expression of the close linkage between microelectronics and mechanical engineering, we are following promising directions for increasing productivity and effectiveness on a large scale. To continue on this road consistently is an essential contribution to changing the production profile of the metal-processing industry in such a way that it can do full justice to its function as the main exponent of exports and as supplier of modern machinery and installations for equipping our entire national economy.

The productivity and effectiveness potential inherent in key technologies can be tapped fully only through the international division of labor. The GDR offers good preconditions for this with the level achieved with regard to quality and quantity, and its further development in accordance with its accumulation power. That, however, obligates us even more to implement our own production in the area of key technologies at the lowest cost by efficiently linking technology, organization and economy and applying modern business accounting methods. Furthermore, key technologies require the creation of an appropriate surrounding sector. Hence it is necessary to direct accumulation measures to uniform modernization solutions, an efficient infrastructure and the proportional development of the sectors, as well as better coordinating the capacity development of important cooperation chains for the manufacture of end products. In these considerations must be included the proportionality between production, transport, transshipment and storage capacities so that the possible effectiveness advantages due to shorter production times and lower stocks can actually be fully tapped.

A further focal point for the purposeful use of accumulation means is the higher processing of domestic and imported raw materials; for the coal and energy industry alone, about 9 to 10 billion marks are expended annually. The tasks encompass processing of the sources of energy, development of nuclear power capacities, processing of the chemical and metallurgical industries, and procuring high-quality glass and ceramics materials on the basis of domestic raw materials with the comprehensive utilization of secondary raw materials. This basic direction corresponds to the raw material resources of our country whose production and processing, like environmental protection, require rising expenditures.

More comprehensive utilization of our qualified intellectual potential has a great influence on high accumulation effectiveness. Our party has always taken into account the educational requisite through its foresighted educational policy. The reshaping of engineering and economists' training, the training of technicians and

information specialists required for the arrival of modern key technologies, was carried out in timely fashion; the new generation of skilled workers in the needed occupational structure was ensured; continued education was expanded. But the extensive accumulation means used for education show their effect also in the growth of productivity and effectiveness and have a promoting effect on accumulation power only if the existing knowledge and know-how are employed at the right work place.

#### **Growing Self-Responsibility of Combines for Productive Accumulation**

To strengthen productive accumulation requires above all that the producing units shape the reproduction process more effectively and achieve rising profits from demand-oriented production—through high product quality, lower costs on the basis of lower production consumption, and effective foreign trade activity.

Disregarding the temporary, strictly limited possibilities of redistribution, higher profits constitute the only source of growing productive accumulation for socialism. For this very reason, application of the principle of self-financing of investments was started by introducing investment funds in the combines and construction industries to be earned and expended by them on their own responsibility. This made the possibilities of increasing performances through modernization and reconstruction directly dependent on their own plan fulfillment.

Meanwhile—beginning with the development of the 1988 economic plan—the principle of self-financing of investments became comprehensively effective for the intensively expanded reproduction in 16 combines. The party and government leadership have established measures aiming at further increasing the economic responsibility of combines on the basis of democratic centralism. The combines, now permanently interested in rising profits through long-term normatives, thus also assume responsibility for the development of accumulation possibilities. Since only that can be used which has been earned, it is in the economic interest of these collectives and the national economy to gain high profits based on own performance and to make the greatest possible use of every mark earned. Hence it becomes more compelling and profitable for the combine and enterprise collectives to make all efforts in order to shape the reproduction process more effectively, to manufacture an increasing, demand-oriented end product, and to sell well on domestic and foreign markets. Precise calculations of expenditure and result are being promoted by making the principle of self-financing of investments felt at every work place.

All that places greater importance on qualified analytical and conceptual work as well as on assured mastery of constant product and technology renewal, the use of investments and one's own building of rationalization means. The general managers now have longer-term

preparation possibilities for these processes of productive accumulation, adhering to the legal and economic autonomy of the combine enterprises.

Combines which, already during plan development, by assuming more demanding plan tasks offer greater net profits than scheduled in the state tasks, have more favorable opportunities of productive accumulation since they can incorporate in advance their additional shares of profit in planning and accounting. At the same time, demands on one's own building of rationalization means and on construction departments continue to grow. To finance investments for projects of the state plan as well as the investment fund to be earned and used under one's own responsibility, interest-bearing loans can be obtained which must be systematically re-earned. General managers are also being granted greater responsibility for the management and planning of general repairs. Their financing out of costs supports reproduction of fixed assets aiming at a performance increase. Since the production fund levy must be paid to the state at the expense of costs, greater utilization of fixed assets, like improvements in the inventory economy, have a lowering effect on prime costs.

These and other measures enable the combines and enterprises, on the basis of their own computations, to adjust in a timely fashion with their productive accumulation to new developments of the modern productive forces and to accelerate the reproduction process accordingly, as well as to increase flexibility and the capability to react. Commercial thinking and acting gain increasing importance and require computer-assisted socialist business administration, broader utilization of proven experiences, and new ways in costing.

All workers, as socialist owners, also have the responsibility to contribute to increasing productive accumulation by lowering costs through their labor, thus raising proceeds and profits. It is a great challenge to socialist management activity to create conditions so that everyone not only recognizes how far his own efforts influence them [proceeds and profits], but to also get him directly interested. This requires deeper penetration into economic processes and—beginning with the plan discussion—deducing therefrom, for socialist competition and performance comparison, clear and accountable tasks which can be influenced. In the last analysis, it concerns the strong motivation of workers arising from the interaction between all of society's demand for an increasing end product, the economic interests of the enterprise and combine collectives, and the interest of every individual worker in his rising standard of living.

Hence productive accumulation is of fundamental importance for economic growth, with the goal of ever better satisfying the needs of all of society. It is very decisive for the content and extent of economic possibilities which are available to us in the future in order to keep productive forces up with the times, above all

through scientific-technical and technological achievements. It is a certainty that the pace of the scientific-technical revolution will increase. It would go too far to list the trends and tendencies already recognizable today which will have to be mastered through productive accumulation. But as at present with microelectronics, computer technology, automation technology, optical electronics, etc., many of them will penetrate the entire national economy. The rate, substance and effectiveness of productive accumulation are thus of fundamental importance for the further shaping of developed socialist society because they determine the structure, quality and extent of future consumption needs and their satisfaction, the form and level of the material-technical base—and thereby the standard of working conditions including the demands on occupational activity—, and quite decisively, the economy of time.

#### Footnotes

1. Compare "Mit dem Blick auf den XII. Parteitag die Aufgaben der Gegenwart loesen, Aus dem Bericht des Politbueros an die 7. Tagung des ZK der SED" [To Solve the Tasks of the Present With a View to the 12th Party Congress, from the Politburo report to the 7th meeting of the CC SED], reporter: Comrade Erich Honecker, Dietz Publishing Company, East Berlin 1988, p 25.
2. See Guenter Mittag, "Hohe Leistungen aller Kombinate auf dem Weg zum XII. Parteitag" [High Performances of All Combines on the Way to the 12th Party Congress], Dietz Publishing Company, East Berlin 1989, p 68 ff.
3. Compare Friedrich Engels, "Herrn Eugen Duehrings Umwaelzung der Wissenschaft", Werke, Bd. 20 [Mr Eugen Duehring's Cataclysm of Science, Works, Vol 20], Dietz Publishing Company, East Berlin 1962, p 290.
4. See Karl Marx, "Das Kapital", Vol I, Works, Vol 23, Dietz Publishing Company, East Berlin 1962, p 657.
5. Ibid., pp 631-632.
6. "Mit dem Blick auf den XII. Parteitage die Aufgaben der Gegenwart loesen," aus dem Bericht des Politbueros an die 7. Tagung des ZK der SED, reporter: Comrade Erich Honecker, p 48.

#### Central Planning Hinders Attempts at Self-Financing

23000188a West Berlin DIW WOCHENBERICHT in German No 21/89, 25 May 89 pp 237-243

[Text] The gradual introduction of "self-financing" is one of the latest changes in the economic mechanism of the GDR. It means that enterprises should ultimately finance their investment capital and circulating assets from their own resources. This reintroduces a tool that was already among the elements of the new economic system (NOeS) of the 1960's. The regulations issued so far have initially affected the investment sector. The authorities expect them to stimulate enterprises toward



greater interest in profits and in the efficiency of production. However, the current overall environment of central planning and control is bound to raise doubts whether the desired effect will in fact be achieved.

In recent years, the standard and condition of GDR capital assets have been demonstrated as definitely obstructing growth. Three reasons have specially contributed to this state of affairs:

- The export offensive in the first half of the 1980's proceeded largely at the expense of investment activities.
- The distribution of scarce investment resources on the various sectors and industries in a "ranking sequence" determined by the economic leadership was out of balance. In many cases it was indeed impossible to even replace worn out capital equipment. The result was a rise in the percentage of badly worn equipment.
- Central structural planning was always intent on retaining anything that already existed and, at the same time, develop a broad output spectrum. Structural changes in the GDR are merely marginal. While this policy is certainly a consequence of the GDR's insufficient involvement in the international division of labor, it also puts an undue strain on the economic potential of the relatively small country. The distribution of investment resources therefore is very much like tugging at all corners of a cover that is too short to begin with.

Since the mid-1970's, the "in-house construction of rationalization aids" has been promoted as a first tool for supplementing central state planning in the field of investments. Enterprises are being admonished as far as possible to manufacture the needed equipment themselves. In many instances they have even built their own factories for that purpose. It is currently estimated that 20 percent of all investments effected by the centrally managed industries are accounted for by equipment thus produced; by 1990 the figure is to be 25 percent. Of course it makes sense for enterprises—on the basis of their specific knowledge—to develop technically adapted and user oriented equipment. However, it is quite stupid to enforce self-supply down to standard components. The rigid planning of in-house construction activities is equally irrational, because conditions in the various enterprises differ considerably. The conception of in-house construction was therefore able to fill only some of the gaps in central planning.

#### The New Regulations

The second tool is the current emphasis on the "self-financing" of investments. There used to be investment funds fed from various financial sources. However, central state agencies alone were authorized to decide about investments. The investments finally allocated were almost automatically financed by the state budget, loans and, at a prescribed percentage, the investment fund. The state budget has usually skimmed off any

surplus moneys of enterprises allocated either a few investments or none at all. Consequently enterprises have had little interest in earning additional resources to finance investments.

Self-financing is intended to make investment activities dependent on profits and enlarge the decisionmaking scope of the enterprises. The authorities hope that the sequence of profit—investments—better performance—more profit will yield a general and widespread growth of output and productivity.

At the same time, though, the economic leaders do not wish to entirely abandon their control of the structure. They have therefore created the state plan of investments as a new tool. This involves investment projects of major national importance. In 1989 these include 287 projects amounting to 20 percent of the total investment volume—but at least 30 percent terms of industrial investment only. This type of project will continue to be financed from the state budget, loans and the investment funds of the respective enterprises.

The self-financing principle is currently offered in two versions:<sup>1</sup>

- [One is ]for limited use by most combines,
- [The other is] for extended use by select combines.

Limited use, in force since early 1988,<sup>2</sup> provides for a special investment fund for combines and enterprises—in addition to the general investment fund. However, the investment volume is specified as a definite plan target. The funds are fed by a fixed part of write-offs and profits.<sup>3</sup> Such a fund has been established in every enterprise. Enterprises may use the funds on their own responsibility for investment projects not exceeding 5 million marks. They may be carried forward to the next year. Projects are to be carried out primarily by the in-house construction of rationalization aids. "In-house production" is to be heavily emphasized, and state plan targets are issued to that effect.

Extended self-financing<sup>4</sup> has applied since 1989 to combines "centrally specified in the annual plans." Evidently included so far are the 16 "experimental combines" selected in 1986/1987. Extension by comparison with the limited version largely consists in the following points:

- The investment volume desired should at least equal total write-offs in all enterprises.
- No state plan targets are issued for the material aspect of investment planning; instead there are calculation indices evidently intended to offer greater scope to the enterprises.
- Percentage rates (normatives) for profits and write-offs for establishing the fund are to be stable in the long term.

- Money may be borrowed within the framework of self-financing.
- The 5-million mark limitation is dropped.
- Integration with in-house rationalization aid construction is less strict than in the case of the limited version.

There is a fourth category<sup>5</sup> in addition to the investment types mentioned earlier (state plan, limited and extended version of self-financing). This involves enterprise investments amounting to more than 5 million marks by combines and enterprises operating with limited self-financing. Here the old rules continue to be in force,<sup>6</sup> especially the need for central permission for projects. The overall intention is a gradual transition to general self-financing in the coming years; this fourth category will then fall away. By 1990, extended self-financing will already apply to 52 combines of industry and construction. All combines are to be involved in the 1991-1995 period.

#### Control of Planning and Implementation

The continuing and considerable influence of central agencies is demonstrated by the unchanged and legally fixed stages of the planning procedure. The "plan of investment preparation" calls for evidence of the discharge of specific economic tasks with respect to the various projects (such as the expected development of demand, the demand satisfaction desired, the utilization of existing capacities, integration with the plan science and technology, the achievable improvement of efficiency). A 2-year lead time is prescribed for the preparation plans that are now to be decentralized (within the scope of the investment fund operated by the enterprise on its own responsibility). This is to ensure a "basis for the skilled preparation, planning and balancing of investments."<sup>7</sup> This is followed by a voluminous documentation of the decision in principle, that is the prerequisite for inclusion in the actual investment plan ("list of headings"). The general director of the respective combine normally issues the decision in principle in the case of investments on the enterprise's own responsibility. However, the competent industry minister may order an expert opinion for every project. This expert opinion must be provided by the expert advisory body at the ministry. A central price check also will subsequently have to be carried out by the Central Price Check for Investments at the Price Office. The results and directives arising from the expert opinion are mandatory on the enterprises and combines.

Moreover, strict planning procedures govern the actual implementation of investments. These procedures are based on old established legal rules. They include regulations on initial planning as well as on the planning and implementation of subsequent investments. In connection with the introduction of self-financing, all these rules were assembled in one law<sup>8</sup> without the basic planning structure being perceptibly changed.

Nor have controls been eased with respect to the plan-appropriate implementation of investments. These controls are carried out by the State Financial Audit, the bank and price control organs as well as (and specially so) the State Central Inspectorate for Investments at the State Planning Commission. The inspectorate is charged in the case of plan transgressions in the investment sector "to demand the immediate elimination of the defects and to on-site evaluate the measures adopted."<sup>9</sup>

The banks exercise considerable influence in respect to self-financed investments, too. Their controlling authority, set out in detail in the 1982 credit decree, has been further extended since.<sup>10</sup> Whenever a loan application is received, they are to review the accurate calculation of project costs and results. This review extends not only to preparations but also to implementation and final accounting.<sup>11</sup> Enterprises are mandated to prove the contractual guarantee of the supplies and services required. The banks then pass on the results of their review to the competent ministries. Should they notice any irregularities, the banks are responsible for the initiation of the appropriate measures for eliminating them.

Moreover, credit and interest have assumed greater importance. Before the enactment of the new regulations on self-financed investments, the banks merely acted as automatic lenders for investment projects decided upon by government agencies. Now enterprises must apply to the bank for the necessary loans even before the decision in principle. The most important conditions for the issue of a loan are the regeneration of the money borrowed on the basis of the preset "return flow interval," the repayment from self-generated resources, and the achievement or observance of the fixed efficiency parameters.

The rules of business law generally seem to be rather narrower. This contradicts the alleged greater responsibility assigned the enterprises. Experience teaches us that enterprise policy tends to be obstructed by the bureaucratic network.

#### Balancing...

Investment projects—including the in-house construction of rationalization aids—require preparation. A system of commodity balances (Materials, equipment and consumer goods-MAK [not further identified] balances) serve the distribution of previous preparatory work. Supplies and utilization are synchronized in these balances, beginning with raw materials and, by way of primary products, ending with the finished product. The decision on balances already clearly defines the framework for the growth and structural development of the national economy. Various management levels are in charge of handling the drafting and confirmation of balances (balance pyramid). The balancing system is structured hierarchically and strongly centralized. The central level (Council of Ministers, State Planning Commission, industry ministries) decides 70 percent of the total output volume<sup>12</sup> by the so-called state plan and ministerial balances (S and M balances).

Balance Level	No of Balances	Balancing Organizations	Balance Confirming Organizations
State plan balances	450	State Planning Commission	Council of Ministers
Ministerial balances	730	Ministries	State Planning Commission
Combine balances	3,600	Combines, enterprises	Ministries, combines

Simplified representation from: Gerhard Koehler, Karl-Heinz Reuss: "Balancing," Series "Point of View—The Economy," East Berlin 1989, p 29. The data vary; another source (see footnote 13) mentions a total of 4,500 balances.

Balancing is still considered the main tool for enforcing the primacy of the plan. Current discussions in the GDR do not indicate that the economic leaders intend to ease up on this tool of control. It is true that lately—with respect to the greater responsibility assigned the combines—the authorities have been pointing to the large number of central combine and enterprise balances (1986: 3,600). On the other hand we need to remember that these balances largely originate in disaggregated product groups of the S and M balances, in other words reinforce these with respect to the assortment. Other sections are subject to central balance directives. Moreover, we estimate that one third of the combine balances need to be confirmed by the competent industry ministry.

### ...And Its Effects

The rigid structure of balancing and the bureaucratic procedures in fact result in much friction, the impact being the stronger the more previous stage supplies are involved, directly or indirectly, in the final product.

As a rule, major investment projects are characterized by the fact that many special supplies are required (such as construction materials, raw materials, tools, controls, equipment for new assembly lines, cranes, sheds). Unfortunately these are planned by various balancing organs (for example the district construction office, various industry ministries and combines). Even in the age of electronic data processing, the coordination of need satisfaction in terms of time and matter remains an imperfect process. An added complication is represented by the fact that the manufacture of all these components in turn requires direct and indirect supplies. Different balancing organs are respectively competent in this chain from the previous product to the final article. As a result there is a tendency not to pay much attention to integrated cooperation relations and production complexes linked by a division of labor. Disproportions therefore arise quite frequently, as the following example will show: The new machine approved for a final producer cannot be supplied by its manufacturer, because the latter's competent balancing organ failed to allocate the components required.<sup>13</sup>

Many balance headings are—necessarily—tabulated in terms of value (as the sum total of various product headings). That applies to M balances as well as often also to combine balances. Allocations of equal value ("balance shares") may, though, include quite different product variants, so that the enterprises' need for special commodities with specific technical parameters is not automatically met. Complaints are also heard about bottlenecks resulting from the fact that allocations equal in value may in fact mean smaller numbers of items (price increases and quality improvements).

Economists point out the necessity for drawing up "genuinely balanced" plans, inclusive also of available reserves of materials and intermediate products so as to make it possible to sustain a steady output flow and respond flexibly to changed situations. In actual fact the opposite happens. Balance shares are kept as low as possible, no reserves are planned. The consequences are described as follows: "When material links are particularly tense, the economic organism becomes 'constipated.' The speed of the spread of technical innovations...is lower...."<sup>14</sup>

The administrative allocation system<sup>16</sup>—the balancing system here described—is actually the reason for the continuing exacerbation of shortages. To safeguard themselves against all eventualities, enterprises exaggerate their needs and keep excessive stocks that are then short elsewhere. In addition some commodities are hoarded with the for the purpose of exchanging them (on the "gray markets") with some other combines against other scarce goods.

Closely connected with the above is a cardinal factor of interference with the economic process—the lack of stability and flexibility in interenterprise cooperation.<sup>16</sup> Many are the complaints about the nonobservance of business contracts. In 25 percent of litigation before the State Contract Court, the conflict is due to defective planning and balancing decisions.<sup>17</sup> One party to the contract was unable to deliver, because it had not been allocated the materials required. Contract arrears are often made up in terms of value by "anticipated deliveries" (required by contracts due for fulfillment at a later date), but the final producers do not thereby obtain the assortments required at the time. Investment projects are endangered or fail to be completed at the proper date, and export opportunities are missed. The long standing discussion about the inclusion of contract appropriate output in the performance evaluation has not so far had any results.<sup>18</sup>

Of course coordination problems also occur in a market economy. However, these problems assume quite different dimensions in the GDR's economic system. In a shortage situation, mistakes in the central allocation system (balancing) are specially pernicious, because there are virtually no reserves "on the market" to allow enterprises to obtain the supplies not taken into account in the balances (except possibly in barter between combines).

### The Priority of the State Plan of Investments

The old central investment plan eventually involved some 3,000 projects. At 287 projects, the new state plan of investments has a very reduced scope. It is to concentrate only on structurally decisive projects. Four key areas have been mentioned: the use of key technologies, the growth of component production and the replacement of imports, the strengthening of GDR export capacity, and the increase in consumer goods output.

It is intended within the framework of the state plan to specially safeguard (in terms of both the timeframe and materials) the transfer of research and development results to actual manufacture. The state plan therefore provides for joint planning by the State Planning Commission, the ministries for science and technology and for finance as well as the respective industry ministries. The planning order also states that the state plan of investments is to be integrated with projects of the state plan science and technology. For that reason important pilot and test facilities are to be involved.

Detailed planning procedures affirm the controlling powers of the economic center and the absolute primary of state plan projects:

- Preparations need to be carried out with particular care (for example with respect to the description of the construction, the capacities to be created, costs, efficiency requirements and the timesequence of production).
- The respective ministry distributes the special plan targets for projects of the state plan of investments to all combines involved in the project, and the general directors break them down further to the various investment contractors.
- The necessary resources must be assigned priority in the balances, and all partial performances needed enjoy priority in the conclusion of business contracts.

The ministries exercise strict control by means of a "reporting system." The State Planning Commission and the banks have direct controlling duties. The State Central Inspectorate for Investments is to supervise project implementation up to the time of continuous operation—specially the observance of centrally confirmed and technical-economic indices (set dates).

The smaller dimension of the state plan makes easier the overall coordinated planning and quick realization of projects, though experience teaches us that even state plan headings are not kept to always or everywhere. The GDR economy lacks a price fixed in response to the market to act as a control on the national economy. It is therefore difficult to find a criterion for choosing projects for the state plan. Moreover, they can have a widespread effect only if they are not handled in isolation—something that in fact happens quite frequently.

In addition, an efficient policy with respect to structure does not merely imply the encouragement of particularly important sectors. It also includes the need for structural correction. It calls for the identification and rigorous weeding out of types of production involving particularly great energy use or little competitive ability. It is nonsensical in terms of the economy to continue deploying resources that are likely to produce much greater profits elsewhere.

### Summing Up

The basic concept of the new rules (frequently pointed out) is that of "referring decisions to the level to which they properly belong."<sup>19</sup> This phrase harks back to the philosophy of the NOeS. Other than at that time, though, a very cautious transfer to practice is typical for the current procedure. Steps toward reform are generally accompanied by other measures intended to prevent the potential hazard of spontaneous (and no longer calculable) action—presumably in consequence of the experience provided by the failure of the NOeS. On the other hand, the authorities have also limited the opportunities for the new rules to be properly effective.

The new decisionmaking scope of the combines and enterprises, therefore, initially represents merely an isolated regulation in an environment, where the remaining planning framework has remained unchanged. By means of the balancing system, the state keeps a firm grip on the basic distribution of resources; planning and control mechanisms continue to govern the choice of projects. The persistence of this framework is indispensable from the standpoint of the economic leadership. The amount of self-generated funds is to be coordinated with their potential realization. The authorities also wish to prevent enterprises from making investment decisions that deviate from the central structural conception.

The principle of self-financing is not meant to just supplement central investment planning; it is also expected to yield a mobilizing effect and improve efficiency. The starting point is the hope that combines will have greater interest in making a profit, because they will be able to in part reinvest it in their own enterprises. Unfortunately this hope is based on assumptions that have only a very limited application in the GDR system.

The first problem is the evidential value of net profits. Net profit is a value datum and, therefore, dependent on prices. Despite numerous changes, though, the price system in effect is based only inadequately on economic shortage ratios. Profits or losses are not necessarily a reflection of the quality of management but rather the mirror image of price structures fixed by the government. Moreover, the development of prices has become obscure in recent years as a consequence of the stimulation of innovations. Despite official price controls, enterprises are succeeding in getting approval for higher prices with respect to products that display only very slight improvements. The monopoly status of the combines also makes a

performance comparison quite difficult. The practical difficulties arising therefrom are demonstrated by the evident hesitancy in setting normatives for the allocation to the investment fund (timeframe, differentiation by industries).

The second problem is that of motivation. It is certain that the entire conception offers few material incentives (wages, premiums) to the bulk of workers to improve their performance (wages, premiums). The entire conception focuses on entrepreneurial initiatives exclusively. It is true that the authority to make independent investment decisions may be quite motivating for enterprise management even in a planned economy—by virtue of nonmaterial incentives such as self-affirmation, pride in achievement, success, increased powers. However, these effects are blocked by the planning framework. Formal plan fulfilment dominates the central performance control. Plan-actual comparisons make for holding back performance in the stage of plan drafting. As a consequence the economic units have assumed a generally defensive stance, and they are generally reluctant to adopt innovations—simply because the failure of innovations is subject to greater penalties than omission.

Lastly, the efforts for raising profits assume adequate opportunities for an independent entrepreneurial development strategy. Initiative, though, is crippled, because the combine director is assigned a lot of heterogeneous target data (such as proof of manpower savings, computer utilization, expansion of CAD/CAM [computer assisted design/computer controlled manufacture], the rigid requirement that all enterprises in the basic materials and production materials industry devote at least 5 percent of their output to consumer goods, instructions about consumer goods assortments by price groups). In addition there are conflicting directives: District organs, for example, pursue campaigns to raise consumer goods production in their region and impose assignments even on centrally managed combines, actually subordinated to the industry ministries. This administrative interference may well result in disproportions if supplies for the additional production are lacking. Or: Combines are compelled to expand consumer goods production in a particular district, although it may be conducted more efficiently elsewhere. Neither enterprise nor combine directors are normally able to identify with such operational decisions and unwilling to accept real responsibility for them. It needs above average initiative and stamina to leap such hurdles. In view of the continuing restrictive framework conditions, we cannot expect a forceful push from the new opportunities for self-financing.

#### Footnotes

1. "The Situation of the GDR Economy at the Turn of 1988/1989," edited by Doris Cornelsen, DIW WOCHENBERICHT, No 5/1989, pp 53ff.

2. "Order on the Planning, Formation and Use of the Investment Fund to be Self-Financed and Utilized" of 29 January 1987, GBI DER DDR, Part I/1987, pp 15ff.

3. Eventually the fund should consist to 40 percent of parts of write-offs and to 60 percent of parts of the profit. See BERLINER ZEITUNG, 17 March 1987, p 3.

4. "Decree on the Planning, Formation and Utilization of the Investment Fund" of 30 November 1988, GBI DER DDR, Part I/1988, pp 279ff. The decree also includes the instructions on the state plan of investments.

5. See "Order No 5 on the Supplementation of the Planning of the GDR National Economy 1986/1990" of 16 January 1989, GBI DER DDR, special issue No 1189/2L.

6. See "Order on the Financing Directive for State Industry and Construction," GBI DER DDR, Part I/1987, pp 107ff; also WIRTSCHAFTSRECHT, No 2/1987, pp 32ff.

7. See "Order No 5...," as before, p 10.

8. See "Decree on the Preparation and Implementation of Investments" of 30 November 1988, GBI DER DDR, Part I/1988, pp 287ff.

9. Ibid, p 306.

10. See "Third Decree on the Grant of Loans and Bank Supervision of the Socialist Economy" of 30 November 1988, GBI DER DDR, Part I/1988, pp 283ff.

11. See NEUES DEUTSCHLAND, 2 December 1988, p 5.

12. See "Research Information by the Socialist Economy Section at the College for Economics, No 36, issue A, East Berlin 1986, p 75.

13. "Computer assisted balancing offers many benefits (more rational work, faster overview, and so on). However, it does not solve the economic problems arising in the relationship between component producer and final producer...Above all, computers do not replace balance decisions (who gets what product and how much of it)...," BERLINER ZEITUNG, 10 March 1988, p 3.

14. Harry Nick, "Socialist Property, the Planned Economy and Democracy," WIRTSCHAFTSWISSENSCHAFT, No 11/1988, p 1617.

15. 70 percent of all means of production circulate in direct transactions, the remainder is handled by the trade in means of production. (See MATERIALNOTECHEKNICHNESKOYE SNABZHENIYE No 2/1989, p 64). The trade in means of production is meant to distribute products needed by many consumers in small quantities and at dates difficult to plan. In actual fact it is also asked to store products that are hard to sell. In



contrast to the Soviet Union, the GDR does not contemplate any softening in the administrative system of allocation by having the trade in means of production oriented more strongly to the market.

16. Despite the integration of important component manufacturers in the combines, the links between combines remain strong. For example, only 8 percent of materials purchases by the Electrical Apparatus Works Combine are derived from its own combine enterprises. See *BERLINER ZEITUNG*, 10 March 1988, p 3; also *WIRTSCHAFTSWISSENSCHAFT*, No 4/1989, pp 538ff.

17. See Uwe-Jens Heuer, "Innovation, Motive Forces and Business Law," Conference Reports by the GDR Academy of Sciences, *GESELLSCHAFTSWISSENSCHAFTEN*, No 3-G/1988, p 23.

18. As contract penalties are fairly ineffectual, there has lately been some discussion how losses of profit due to contract arrears may be more emphatically and punitively reclaimed from the offenders. See *WIRTSCHAFTSWISSENSCHAFT*, No 10/1988, p 1541. On the discussion also see *WIRTSCHAFTSRECHT*, No 2/1987, pp 25ff.

19. See Harry Nick, Gerd-Rainer Radtke, "Social Development and Socialist Property," *EINHEIT*, No 3/1989, pp 226/229.

#### Measures to Ensure Maximum Grain Yield Outlined

23000182a East Berlin *FELDWIRTSCHAFT in German* No 6, Jun 89, pp 243, 244

[Article by P. Findeis, deputy to the Minister for Agriculture, Forestry and Food Industry: "The Intensification of Grain Production Is the Number One Priority for Our Farm Production"]

[Text] The national economy as a whole is tackling the task by outstanding work performances in all sectors, the best product quality and lowest costs to make a maximum contribution to the national income of our state in order to create and safeguard the foundations for a permanently high overall social performance.

In socialist agriculture as well as in industry it will be necessary by the implementation of the 1989 plan to make prevail the economic strategy of our party with an even greater degree of efficiency than in the past so as to honorably fulfill the decisions of the 11th SED [Socialist Unity Party of Germany (GDR) Party Congress and the 13th Farmers Congress. It is imperative mainly to even more closely link the benefits of socialism with the scientific-technological revolution, significantly strengthen the intensification of production and, with the aid of science and technology, achieve the necessary improvement of labor and field productivity. In accordance with Comrade Honecker's words at the 7th SED CC [Central Committee] Plenum, this will ensure continuing dynamic and stable economic growth in every enterprise of our national economy.

Our farm policy assigns outstanding importance to crop production. It is the key for the process of comprehensive intensification in agriculture.

On it depends the continuing advance in the intensification of livestock production and, consequently, the efficiency of cooperation. Its results directly affect the overall balance of our national economy. The 1988 production results have clearly demonstrated this.

Grain is the number one priority in our crop production, because:

—In the GDR we need a grain output of at least 12 million tons by 1990. This was stipulated by the Eleventh SED Party Congress. Such a volume has never before been achieved,

—We cannot afford to import feedstuff that we can produce ourselves, especially because we have the experience, the scientific lead and the material-technological preconditions, and

—We also need to remember that we contribute most effectively to the continuing intensification of livestock production by rising grain outputs.

#### Why Is the Increase in Grain Production Such a Compelling Need?

Based on the results achieved through 1987 we need to make more progress so as to this year exceed the planned yield by at least 1 dt/ha [decitons per hectare]. This large domestic output is also necessary, because the average GDR citizen consumes more than 2,000 kilocalories (12,570 kJ [kiljoules]) every day.

The GDR is among the countries with the highest per capita consumption of all important foods. The consumption of meat and meat products rose by 1.4 kg per annum in 1981-1988 and, in 1988, amounted to 104 kg.

The GDR is also among the countries with the highest per capita consumption with regard to milk, eggs, cheese and butter. All this is a reflection of the high level of output achieved and calls for concentrates in the form of grain.

A 46.2 dt hectare yield and 11.6 million tons gross output was balanced for grain. This corresponds to a 16-percent rise over and above the result achieved in 1988. In the socialist competition the enterprises have undertaken to exceed the plan by 200 kilotons.

Following the decision by the Presidium of the GDR Council of Ministers of 24 November 1988 (on the assessment of the results of the 1988 grain harvest and the conclusions arising therefrom) and of 2 February 1989 (measures on the preparation and implementation of spring cultivation 1989), the LPGs and VEGs discussed and adopted various measures for the intensification of grain production. They also organized the actual implementation of these measures.

Programs for the efficient use of the land have assumed greater importance in LPGs and VEGs, in particular with regard to the better supply of organic substances to the soil, the improvement of field cultivation and the efficient utilization of the irrigation potential. They were and still are reviewed and consistently realized.

As Comrade Honecker explained at the 7th SED CC Plenum, the measures for the improvement of soil fertility, the observance of agrotechnical dates and respect for quality represent key concerns with respect to comprehensive intensification, starting with crop production.

Many LPGs and VEGs have found field specific top yield conceptions to be an excellent method for the creative collaboration of cooperative farmers and workers by linking actual farming practice with science. These conceptions will be organized even more effectively. The central user seminars on winter rye, winter wheat and winter barley as well as brewing barley had a widespread response, and many districts followed up on them. LPGs and VEGs that achieved large yields in 1988 also were heard from. The following are characteristic for these enterprises:

—They do everything possible to improve soil fertility. Agrotechnical dates are consistently observed. They take care to ensure top quality with respect to all field work. The managers know how to cope with field and stock management in all conditions and create the appropriate set of tools for this purpose—highest yield conceptions, AG [expansion not given] science and technology, enterprise pesticide and fertilizer agronomists, key technology BC [expansion not given].

One of the management key points is the observance of the most favorable agrotechnical dates, specially with regard to sowing.

Particular attention is devoted to the selection of the correct variety. Here the orientations of the variety of kreis commissions and the farm managers' own experience represent important bases. New and higher yielding varieties are cultivated on suitable fields in the shortest possible delay.

Another key item is the need to overcome still persisting and unwarranted differences between comparable fields, enterprises and kreises. Discussions have repeatedly led to the recognition that the complex of soil and growth management must be better coped with in all kinds of conditions and needs to be properly adapted to the weather and the process of vegetation. Concrete knowledge of optimum growth management is the most important source of continuing and perceptible increases in yield, especially by the consistent application of nutrients, efficient crop protection and low loss harvesting.

The measures adopted in recent weeks up to and including these June days with respect to scientific growth management were of the utmost significance for high grain yields in 1989.

Good results were recorded with the system of comprehensive measures relating to appropriate fertilization, herbicide treatment and the maintenance of health grain growth through the harvest. The best enterprises confirm that these measures in conjunction with soil fertility represent the best hope for quickly raising grain yields by 3-5 dt/ha.

In the next few weeks it will be imperative to apply the last lot of nitrogen to the crops, especially food grains. Application needs to be based on the results of the fast nitrate test. Plant protection work must be carried out by means of the appropriate use of fungicides so as to ensure the health of the grain crops until the natural completion of the ripening process. The stage of filling the ears may then be fully used to maximise the yield. The scientifically based assessment of ripeness, exact manpower and equipment balances are the final prerequisites for all grain being brought in with the minimum of losses.

Process optimization at harvest time means not to allow any losses, ensure top speed and top quality. It must be our aim to cut the fields as fast as possible in order to guarantee the largest possible between-crop cultivation for fodder and green manuring. All this helps accomplish the challenging tasks in grain unit production.

## HUNGARY

### Tungfram Planning, Foreign Ownership Details Provided

#### Managing Director on Contract

25000272B Budapest FIGYELO in Hungarian  
11 May 89 p 9

[Interview with Andras Gabor, managing director of Tungfram, by Robert Becsky: "Foreign Capital at Tungfram: Forging Ahead Toward the Past"; date and place not given]

[Text] At the end of last week, after some delay, the Austrian financial concern Girozentrale acquired 49.65 percent of the lamp manufacturer Tungfram's shares in exchange for 110 million dollars, and thus Tungfram became the first Hungarian industrial enterprise with its majority controlled by a Western firm. The contract encompassing this acquisition was discussed by our associate and Tungfram's managing director, Andras Gabor.

[FIGYELO] One might say that by entering into this contract your firm is forging ahead toward the past; after all, prior to World War Two the majority of shares issued by your predecessor, Tungfram, Ltd., were in British, Dutch, and American ownership. What kind of changes will the appearance of the Austrian firm bring to the enterprise's management practices?

[Gabor] I would separate the questions related to proprietorship and management. As for the first consideration, it is commonly known that at the end of last year the Hungarian Credit Bank acquired some 92 percent of

Tungsram's shares by obtaining shares in the value of 6 billion forints. The remaining 8 percent of shares were divided among the Ministry of Finance (representing the state), the Center of Fiscal Institutes, and the Foreign Trade Bank. By the way, the Hungarian Credit Bank announced from the onset that it did not wish to retain all of the shares, and was looking for suitable partners abroad. After several tries, it managed to make a deal with Girozentrale. Thereby, the consortium made up of investor banks acquired control over 49.65 percent of the shares. The remaining shares, valued at 3.42 billion forints, are owned by the Hungarian Credit Bank, the Hungarian state (represented by the Ministry of Finances), the Foreign Trade Bank, and the Center of Fiscal Institutes.

Of course, there will also be some changes in management; the shareholders' meeting will select a new directorate with five Austrian and six Hungarian members. Within this, there will be an executive council, with two Austrian and three Hungarian members working as the firm's permanent employees. Even the structure of management will be modified. As I have mentioned, we will develop a system of managing directors who will be appointed for 5 years.

[FIGYELO] Doesn't this transformation make the present management apprehensive?

[Gabor] Of course it does! This is not surprising, since everyone looks at the changes as threatening their own well developed positions. In addition, these changes also bring with them the possibility of failure. On the other hand, we should not forget that Tungsram is a specialized enterprise, in which different kind of knowledge and marketing experience is required when it comes to the manufacture and sale of light sources and that of vacuum equipment. The firm also represents a special economic environment for a Western specialist. Our managerial staff has the necessary knowledge, in addition to the technical expertise accumulated in the course of many years. Our weaknesses are in our knowledge of international banking and finances and in our ability to manoeuvre the money and capital market, which are now becoming crucial factors. This is why we asked the Austrians to delegate financial experts to be members of the directorate.

[FIGYELO] As long as we are talking about success and failure, how will the various partners benefit from this transaction?

[Gabor] Let me start with the partner most remote from us, the Hungarian state. It will receive all hard currency earnings. Some of that (a smaller share, I hope) will be used to service debts, while the majority will be used to acquire modern technology.

The seller, the Hungarian Credit Bank, also benefits: Not only does it get a certain amount of hard currency, but also about 3 billion forints ready to be invested. We should add to that an interest in excess of 20 percent which will accrue after that money is allocated.

This is aside from the fact that almost 5 billion of the 5.5 billion forints spent on purchasing the shares were created by Tungsram by transferring monies out of short-term loans for operating expenses into basic capital, that is, the bank transformed a significant portion of our loans into share capital. As a proprietor, it also reduced interest cost by doing this, since increasing the fundamental capital served to moderate Tungsram's need for credit. I would add here that in 1988 we spent 800 million forints on servicing our loans.

[FIGYELO] By the way, earlier you mentioned that at least 3 years will have to pass after the reevaluation of property before the Tungsram shares could be sold on foreign markets. If this is the case, then how does girocentrale benefit from this?

[Gabor] Based on a survey performed by the Price Waterhouse consulting firm, the reevaluation of property has already taken place: 2.5 billion of the 7.9 billion forint book value had to be written off. Such realistic property reevaluation may enable the Austrian firm to bring upgraded Tungsram shares to Western money markets. The shares have been purchased by Girozentrale and the subsidiaries it represents, and their dividends provide income to the consortium.

[FIGYELO] This takes us to the last remaining partner, Tungsram, Ltd., which has 12 plants in Hungary and 16 joint endeavors abroad. How will that enterprise benefit from this deal?

[Gabor] To begin with, we become an enterprise of mixed ownership, meaning that the proprietor will be directly present, even personified. I hope that this will strengthen the compulsion to perform. We have developed a program designed to improve conditions and introduce structural changes. Utilizing the extra profits, we would also like to initiate investment projects in order to improve our competitiveness in manufacturing light sources and technological equipment, but we are also planning to invest in infrastructural changes, in order to develop our abilities to manufacture spare parts. If we succeed in achieving the planned 12 percent dividends by 1991, and if shareholders invest all or some of this money with us, this will create the required financial basis. After all, the upgrading of shares, mentioned earlier, will depend largely on profitable management by Tungsram. The firm will be able to sell its shares in 3-4 years at a profit only if the audited balance sheets show a dynamic growth. In other words, a concrete proprietor keeps the property growing in his own interest, but this also makes our management more effective. For example, we had to promise a profit of 1.5 billion forints for this year, 2 billion for 1990 and 2.4-2.5 for 1991. This implies a major compelling force to improve efficiency, as illustrated by the fact that since 1978 we have never achieved such a high rate of profit, and in 1988 Tungsram's audited profit level was around half a billion forints. The goal of 1.5 billion, set for 1989, could create conditions for the payment of 10 percent dividends.

[FIGYELO] Still, aside from the strengthening of proprietary incentives, to what do you attribute the sizeable increase in performance?

[Gabor] This has inner and external components. Since our founding capital was increased by 6 billion forints last year, our enterprise's liquidity worries have disappeared; one source for our increasing profits is exactly the fact that we save interests amounting to about 800 million forints. With its exports valued in excess of 6 billion forints worth of hard currency, Tungram is an enterprise that operates in a competitive marketplace. But, of course, having the choice among the various procurment sources is also a precondition for competitiveness. Fewer restrictions on import, for example, could improve our competitiveness. Based on such factors as delivery, quality, and the like, in the future we will make our foreign subcontractors compete with each other. By establishing our headquarters in Amsterdam, we will improve capital availability for 16 of our foreign associates. This is because our foreign subsidiaries operate with relatively little basic capital and large accumulation of goods, which makes it difficult for them to obtain credits. The changes listed will enlarge the company's freedom of movement, which, by the way, was given the least favorable classification in the Price Waterhouse survey.

And this also leads us to the internal conditions. We must reduce our general operational expenses, and our strategy for the commodity market should clearly indicate the areas in which we wish to achieve the most rapid progress by making massive investments, and finally we could also improve our competitiveness by upgrading the operation of our market organizations.

[FIGYELO] In a statement made to our publication last November (FIGYELO, 1988, No 45), you said that under the present conditions it is inconceivable for competing firms, such as Philips or Osram, to acquire a majority interest in Tungram, Ltd.

[Gabor] In accordance with the contract, the Girozentrale cannot sell shares to competing firms, and an appended list names those that are considered to be in that category. By the way, it is true that these firms have expressed interest earlier, and they continue to be interested. Obviously, they are not interested in dividends, but in obtaining majority control and thus the ability to influence the business policies of Tungram the competitor.

[FIGYELO] Which raises the question: Beyond these fiscal connections, to what degree can you count on an influx of technological knowledge held by your competitors?

[Gabor] I think we have to be realistic. The activities of our greatest competitors are diversified: Philips and Osram obtain their greatest development achievements from their own research centers. The two operational areas, manufacturing light sources and machinery, however, are closely related. After all, the manufacturing of machinery serves the purpose of producing as modern products as possible, as efficiently as possible. However,

a knowledge of technological relationships is necessary to produce vacuum-technology equipment. In fact, the combination of these two production spheres assures one's dominant market position. That is why the above-mentioned firms seldom sell vacuum-technology equipment (especially the newest types); rather, they use them in their own plants at home and abroad.

This does not preclude the possibility of us purchasing Western machinery necessary to implement our technologies; just as we have purchased assembly lines from Japan. However, we must rely primarily on our own intellectual background which, unfortunately, has been weakened in the recent decades.

[FIGYELO] What will your role be in the new enterprise structure?

[Gabor] Last December I was appointed president and managing director for 5 years by the proprietors. I hope that their decision will be reaffirmed by the next shareholders' meeting. We started an endeavor: to reawaken the sleeping Tungram, Ltd., and we would like to continue pursuing this course.

#### **Holding Company Chief Interviewed**

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[Interview with Attila Kiss, Tungram International Holding Company president, by R.P.: "Tungram Holding—With Two Persons"; date and place not given]

[Text] The idea of creating a holding company to join Tungram's interests abroad had risen long before the present shareholding company was prepared. Still, Tungram International Holding Company was only established on 1 July of this year in Holland. Our associate has talked with the director of the holding company, Attila Kiss, who was Tungram's economic deputy director until the end of March.

[FIGYELO] How much will the Tungram's foreign subsidiaries, which take care of 60 percent of the firm's light source trade, be affected by the potential future situation in which they will be managed by a unified holding company?

[Kiss] Until now the shares of some of our foreign subsidiaries were owned by a Swiss firm. However, this was nothing more than a pseudo-holding company, set up after the firm was nationalized in order to maintain anonymity for the real owners of foreign subsidiaries. Founded with 10 million Guildens of capital, the Tungram holding company wants to become a real capital manager; its goal is to turn the Tungram subsidiaries into real, profit-oriented enterprises.

[FIGYELO] Aside from the strategic goals, will there be any concrete changes?

[Kiss] Yes. Preparing to face the post-1992 situation in Europe is already prompting us to make rapid changes. This holding company will implement unitary fiscal



management and pricing policies among our foreign subsidiaries. It will be able to orient the generation of profits toward those firms that operate under the most favorable tax conditions. In addition, a concentrated fiscal power will also bring favorable conditions when it comes to obtaining loans.

[FIGYELO] Why was the holding company set up in Holland, where Tungsram does not even have a subsidiary?

[Kiss] One of the reasons is exactly that we did not wish to favor any of our subsidiaries by building the holding company on it. The main reason is that there is no dividend taxation in Holland; while the country, along with other West European countries, offers other advantages, such as having a significant banking system and an absence of problems in exchanging hard currencies.

[FIGYELO] Why did it take this long to set up the holding company? Didn't the suspicion arise that by taking this step, Tungsram only wants to escape Hungarian taxation?

[Kiss] In view of the fact that this was a pioneer undertaking in Hungary, the time it has taken is acceptable. As for the accusation of trying to "escape" taxation, I do not feel that it is valid. The profits obtained will be used by the holding company to develop the subsidiaries. And the increasing volume of trade multiplies the investment.

[FIGYELO] Did you involve your new owners in the creation of the holding company?

[Kiss] Of course. The establishing of this holding company fits in perfectly with the new, profit-oriented marketing approach that is brought to us by the new owners.

[FIGYELO] How will the holding company utilize its capital?

[Kiss] During the first 2 or 3 years we would like to use our capital internally. Our existing subsidiaries could use some investment projects, and it is also possible that within the framework of a shared stockpiling program we will establish a central European storage facility. We are contemplating some production investments in the West, and it is also conceivable that the holding company (as a foreign firm) will set up companies in Hungary.

[FIGYELO] How many persons will be initially employed by the holding company?

[Kiss] For the time being, there will be two of us.

#### **Transaction Delays Experienced**

*25000272B Budapest FIGYELO in Hungarian  
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[Text] More than 2 weeks past the original deadline, they finally signed the contract according to which, for the first time in 40 years, nearly half of the shares of an operating Hungarian enterprise will end up in foreign ownership.

Even the circumstances of the signing indicated that selling almost half of the Tungsram shares is not an ordinary transaction. Omitted was the protocol that usually accompanies even less important events. The half dozen reporters, hurriedly called together at noon on Friday, waited more than an hour for the executives who perfected the final version of the contract.

The original date of the signing was to be 14 April, but a few days before that the Austrian partner requested a delay. There were various rumors concerning the reason for this, including ones claiming that the devaluation of the forint and the changes in Hungary's government may have intimidated the investors who were advancing into an entirely new territory. At Friday's press conference, Dr. Fritz Anton, director of Girozentrale's foreign operations, gave technical reasons for the delay. He said: "The concept itself was extraordinarily attractive, to the point that we managed to assemble the international consortium in 10 days; however, we underestimated the time-demanding nature of such an unusual hybrid contract. After all, we simultaneously were faced with the issues of purchasing shares, financing the undertaking, and organizing Tungsram's Austrian management." In connection with this, observers point out that in many respects the transaction is reminiscent of a peculiar credit deal. In the unlikely event that the shares would not be worth more in 1992 than now, the Credit Bank obligated itself, as a part of the contract, to buy them back at DM13 a piece. Vienna's TREND magazine reported in its most recent issue that the Credit Bank "first had to overcome the resistance of the Hungarian National Bank, which worried that the 110 million dollar deal would negatively influence Hungary's credit chances: If Hungary were once again to ask for a loan, banks would not be partners to that, because (so Hungary's guardians of hard currency feel) they would feel that by participating in the Tungsram deal they had already met, or exceeded, the "quota" set aside for Hungary.

Naturally, during the press conference the partners put primary emphasis on the share-purchasing aspect of the transaction. They stated that the Girozentrale will appoint five foreign citizens to the 11-member board of directors, who will actively participate in the management of Tungsram and exert most of their energies in the areas of finances, technology, production, and marketing. After the FIGYELO asked why did they exclude firms with experience in the manufacture of light sources from the purchase of shares (after all, they would very likely offer higher prices), Fritz Anton answered that in the next few years they would like to turn Tungsram into a genuine international firm, and it was not certain if the competing firms would share this goal. At the same time, he did not exclude future collaboration, or even the possibility of transactions involving the exchange of shares.

The president of the Credit Bank, Sandor Domjan, said that his bank's profits could at worst be reduced by 5 percent if the present transaction were to fail. He expects, however, that the value of shares will increase by 70-80 percent in 2 or 3 years.



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